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Department of the Treasury
Internal Revenue Service

Instructions for Form 706

(Revised July 1990)

United States Estate (and Generation-Skipping Transfer) Tax Return

For decedents dying after December 31, 1989, and before January 1, 1993

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us this information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form and related schedules will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to IRS
706	2 hrs., 11 min.	1 hr., 22 min.	3 hrs., 22 min.	49 min.
Sch. A	7 min.	7 min.	10 min.	20 min.
A-1	33 min.	22 min.	55 min.	49 min.
B	7 min.	11 min.	5 min.	20 min.
C	7 min.	1 min.	8 min.	20 min.
D	7 min.	6 min.	10 min.	20 min.
E	20 min.	5 min.	16 min.	20 min.
F	26 min.	6 min.	16 min.	20 min.
G	7 min.	9 min.	7 min.	14 min.
H	7 min.	4 min.	7 min.	14 min.
I	7 min.	26 min.	11 min.	20 min.
J	26 min.	3 min.	16 min.	20 min.
K	13 min.	8 min.	10 min.	20 min.
L	13 min.	4 min.	10 min.	20 min.
M	13 min.	29 min.	26 min.	35 min.
O	7 min.	10 min.	20 min.	17 min.
P	13 min.	11 min.	18 min.	14 min.
Q	7 min.	13 min.	11 min.	14 min.
Q Wksht.	7 min.	2 min.	59 min.	20 min.
R	46 min.	41 min.	55 min.	49 min.
R-1	20 min.	3 min.	24 min.	20 min.
S	52 min.	31 min.	35 min.	25 min.
Contin.	7 min.	2 min.	7 min.	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer, T:FP; and the **Office of Management and Budget,** Paperwork Reduction Project (1545-0015), Washington, DC 20503. DO NOT send the tax form to either of these offices. Instead, see the instructions below for information on where to file.

Changes You Should Note

- The deduction for the sale of employer securities to employee stock ownership plans (ESOPs) or eligible worker-owned cooperatives (EWOCs), and the law providing for ESOP and EWOC liability for a portion of the estate tax due when such a deduction had been taken have been repealed for the estates of decedents dying after December 19, 1989. We have deleted Schedule N as a result.

- You may not claim the GST grandchild exclusion for transfers after December 31, 1989.

Due to the estate tax changes made by the Revenue Reconciliation Act of 1989, this Form 706 should be filed only for the estates of decedents who die after December 31, 1989, and before January 1, 1993. For decedents who died after October 22, 1986, and before January 1, 1990, use the October 1988 revision of Form 706. For decedents who died after 1981 and before October 23, 1986, use the November 1987 revision of Form 706. For decedents who died before January 1, 1982, use the November 1981 revision of Form 706.

Purpose of Form

The executor of a decedent's estate uses Form 706 to figure the estate tax imposed by Chapter 11 of the Internal Revenue Code. This tax is levied on the entire taxable estate, not just on the share received by a particular beneficiary. Form 706 is also used to compute the Generation-Skipping Transfer (GST) tax imposed by Chapter 13 on direct skips (transfers to skip persons of interests in property included in the decedent's gross estate).

Which Estates Must File

Form 706 must be filed by the executor for the estate of every U.S. citizen or resident whose gross estate, plus adjusted taxable gifts and specific exemption, is more than certain limits.

To determine whether you must file a return for the estate, add:

(1) The adjusted taxable gifts (under section 2001(b)) made by the decedent after December 31, 1976; and

(2) The total specific exemption allowed under section 2521 (as in effect before its repeal by the Tax Reform Act of 1976) for gifts made by the decedent after September 8, 1976; and

(3) The decedent's gross estate **valued at the date of death.**

You must file a return for the estate if the total of (1), (2) and (3) above is more than $500,000 for decedents dying in 1986, or $600,000 for decedents dying after 1986. For filing requirements for decedents dying after 1981 and before 1986, see the November 1987 Revision of Form 706.

Gross estate.—The gross estate includes all property in which the decedent had an interest (including real property outside the United States). It also includes:

- Certain transfers made during the decedent's life without an adequate and full consideration in money or money's worth;
- Annuities;
- Joint estates with right of survivorship;
- Tenancies by the entirety;
- Life insurance proceeds (even though payable to beneficiaries other than the estate);
- Property over which the decedent possessed a general power of appointment;
- Dower or curtesy (or statutory estate) of the surviving spouse;
- Community property to the extent of the decedent's interest as defined by applicable law.

For more specific information, see the instructions to Schedules A through I.

U.S. Citizens or Residents; Nonresident Noncitizens.—File Form 706 for the estates of decedents who were either U.S. citizens or U.S. residents at the time of death. File **Form 706NA,** United States Estate (and Generation-Skipping Transfer) Tax Return, Estate of nonresident not a citizen of the United States, for the estates of nonresident alien decedents (decedents who were neither U.S. citizens nor residents at the time of death).

Residents of U.S. possessions.—All references to citizens of the United States are subject to the provisions of sections 2208 and 2209, relating to decedents who were U.S. citizens and residents of a U.S. possession on the date of death. If such a decedent became a U.S. citizen only because of his or her connection with a possession, then the decedent is considered a nonresident alien decedent for estate tax

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purposes, and you should file Form 706NA. If such a decedent became a U.S. citizen wholly independently of his or her connection with a possession, then the decedent is considered a U.S. citizen for estate tax purposes, and you should file Form 706.

Executor.—"Executor" means the executor, personal representative, or administrator of the decedent's estate. If none of these is appointed, qualified, and acting in the United States, every person in actual or constructive possession of any property of the decedent is considered an executor and must file a return.

When To File

You must file Form 706 to report estate and/or generation-skipping transfer tax within 9 months after the date of the decedent's death unless you receive an extension of time to file. Use **Form 4768,** Application for Extension of Time To File a Return and/or Pay U.S. Estate (and Generation-Skipping Transfer) Taxes, to apply for an extension of time. If you received an extension, attach a copy of it to Form 706.

Where To File

Unless the return is hand carried to the office of the District Director, please mail it to the Internal Revenue Service Center indicated below for the state where the **decedent was domiciled** at the time of death. If you are filing a return for the estate of a nonresident citizen, mail it to the Internal Revenue Service Center, Philadelphia, PA 19255, USA.

Florida, Georgia, South Carolina	Atlanta, GA 31101
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501

Paying the Tax

The estate and GST taxes are due within 9 months after the date of the decedent's death unless an extension of time for payment has been granted, or unless you have properly elected under section 6166 to pay in installments, or under section 6163 to postpone the part of the tax attributable to a reversionary or remainder interest. These elections are made by checking lines 3 and 4 (respectively) of Part 3, Elections by the Executor, and attaching the required statements.

If the tax paid with the return is different from the balance due as figured on the return, explain the difference in an attached statement. If you have made prior payments to IRS or redeemed certain marketable United States Treasury bonds to pay the estate tax (see the last paragraph of the instructions to Schedule B), attach a statement to Form 706 including these facts. If an extension of time to pay has been granted, attach a copy of the approved Form 4768 to Form 706.

Make the check payable to the Internal Revenue Service. Please write the decedent's name, social security number, and "Form 706" on the check to assist us in posting it to the proper account.

Signature and Verification

If there is more than one executor, all listed executors must verify and sign the return. All executors are responsible for the return as filed and are liable for penalties provided for erroneous or false returns. If two or more persons are liable for filing the return, they should all join together in filing one complete return. However, if they are unable to join in making one complete return, each is required to file a return disclosing all the information the person has in the case, including the name of every person holding an interest in the property and a full description of the property. If the appointed, qualified, and acting executor is unable to make a complete return, then every person holding an interest in the property must, on notice from the IRS, make a return regarding that interest.

The executor who files the return must, in every case, sign the declaration on page 1 under penalties of perjury. If the return is prepared by someone other than the person who is filing the return, the return must also be signed at the bottom of page 1 by the preparer.

Line 2.—Enter the social security number assigned specifically to the decedent. You cannot use the social security number assigned to the decedent's spouse. If the decedent did not have a social security number, the executor should obtain one for the decedent by filing **Form SS-5** with a local Social Security Administration office.

Line 6a.—Name of executor.—If there is more than one executor, enter the name of the executor to be contacted by the IRS. List the other executors' names, addresses, and SSNs (if applicable) on an attached sheet.

Line 6b.—Executor's Address.—Use **Form 8822,** Change of Address, to report a change of the executor's address.

Line 6c.—Executor's social security number.—Only individual executors should complete this line. If there is more than one individual executor, all should list their social security numbers on an attached sheet.

Supplemental Documents

You must attach the death certificate to the return.

If the decedent was a citizen or resident and died testate, attach a certified copy of the will to the return. Other supplemental documents may be required as explained below. Examples include Forms 712, 709, 709-A, and 706CE, trust and power of appointment instruments, death certificate, and state certification of payment of death taxes. If you do not file these documents with the return, the processing of the return will be delayed.

If the decedent was a U.S. citizen but not a resident of the U.S., you must attach the following documents to the return: (1) a copy of the inventory of property and the schedule of liabilities, claims against the estate, and expenses of administration filed with the foreign court of probate jurisdiction, certified by a proper official of the court; (2) a copy of the return filed under the foreign inheritance, estate, legacy, succession tax, or other death tax act, certified by a proper official of the foreign tax department, if the estate is subject to such a foreign tax; (3) if the decedent died testate, a certified copy of the will.

Penalties

Section 6651 provides for penalties for both late filing and for late payment unless there is reasonable cause for the delay. The law also provides for penalties for willful attempts to evade payment of tax.

Section 6662 provides penalties for underpayments of estate taxes of $5,000 or more that are attributable to valuation understatements.

These penalties also apply to late filing, late payment, and underpayment of GST taxes.

Publication 448

Additional information may be found in **Pub. 448,** Federal Estate and Gift Taxes.

Specific Instructions

You must file the first three pages of Form 706 and all required schedules. Schedules A through I must be filed, as appropriate, to support the entries in items 1 through 9 of the Recapitulation.

If you enter "-0-" on any item of the Recapitulation, you need not file the schedule (except for Schedule F) referred to on that item.

If you claim any deductions on items 11 through 19 of the Recapitulation, you must complete and attach the appropriate Schedule(s) to support the claimed deductions.

If you claim the credits for foreign death taxes or tax on prior transfers, you must complete and attach Schedule P or Q.

Form 706 has 36 numbered pages. The pages are perforated so that you can remove them for copying and filing. When you complete the return, staple all the required pages together in the proper order.

Number the items you list on each schedule, beginning with 1 each time. Total the items listed on the schedule and its attachments, Continuation Schedules, etc. Enter the total of all attachments, Continuation Schedules, etc., at the bottom

of the printed schedule, but do not carry the totals forward from one schedule to the next. The total or totals for each schedule should be entered on the Recapitulation, page 3, Form 706.

Do not complete the "Alternate valuation date" or "Alternate value" columns of any schedule unless you elected alternate valuation on line 1 of Part 3, Elections by the Executor.

If there is not enough space on a schedule to list all the items, attach a Continuation Schedule (or additional sheets of the same size) to the back of the schedule. The Continuation Schedule is located at the end of the Form 706 package. You should photocopy the blank schedule before completing it if you will need more than one copy.

Rounding Off to Whole-Dollar Amounts.—You may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next highest dollar.

Instructions for Part 3.—Elections by the Executor

Line 1.—Alternate Valuation.—Unless you elect at the time you file the return to adopt alternate valuation as authorized by section 2032, you must value all property included in the gross estate on the date of the decedent's death. Alternate valuation cannot be applied to only a part of the property. You may elect special use valuation (line 2) in addition to alternate valuation.

You may not elect alternate valuation unless the election will decrease both the value of the gross estate and the total net estate and GST taxes due after application of all allowable credits.

Alternate valuation is elected by checking "Yes" on line 1 and filing Form 706. Once made, the election may not be revoked. The election may be made on a late filed Form 706 provided it is not filed later than 1 year after the due date (including extensions).

If you elect alternate valuation, value the property that was included in the gross estate on the date of the decedent's death as of the applicable dates as follows:

1. Any property distributed, sold, exchanged, or otherwise disposed of or separated or passed from the gross estate by any method within 6 months after the decedent's death is valued on the date of distribution, sale, exchange, or other disposition, whichever occurs first. Value this property on the date it ceases to form a part of the gross estate, that is, on the date the title passes as the result of its sale, exchange, or other disposition.
2. Any property not distributed, sold, exchanged, or otherwise disposed of within the 6-month period is valued on the date 6 months after the date of the decedent's death.
3. Any property, interest, or estate which is "affected by mere lapse of time" is valued as of the date of decedent's death or on the date of its distribution, sale, exchange, or other disposition, whichever occurs first. However, you may change the date of death value to account for any change in value that is not due to a "mere lapse of time" on the date of its distribution, sale, exchange, or other disposition.

The property included in the alternate valuation and valued as of 6 months after the date of the decedent's death, or as of some intermediate date (as described above) is the property included in the gross estate on the date of the decedent's death. Therefore, you must first determine what property constituted the gross estate at the decedent's death.

Interest accrued to the date of the decedent's death on bonds, notes, and other interest-bearing obligations is property of the gross estate on the date of death and is included in the alternate valuation. Rent accrued to the date of the decedent's death on leased real or personal property is property of the gross estate on the date of death and is included in the alternate valuation.

Outstanding dividends which were declared to stockholders of record on or before the date of the decedent's death are considered property of the gross estate on the date of death, and are included in the alternate valuation. Ordinary dividends declared to stockholders of record after the date of the decedent's death are not property of the gross estate on the date of death and are not included in the alternate valuation. However, if dividends are declared to stockholders of record after the date of the decedent's death so that the shares of stock at the later valuation date do not reasonably represent the same property at the date of the decedent's death, include those dividends (except dividends paid from earnings of the corporation after the date of the decedent's death) in the alternate valuation.

As part of each Schedule A through I, you must show: (1) What property is included in the gross estate on the date of the decedent's death; (2) What property was distributed, sold, exchanged, or otherwise disposed of within the 6-month period after the decedent's death, and the dates of these distributions, etc. These two items should be entered in the "Description" column of each schedule. Briefly explain the status or disposition governing the alternate valuation date, such as, "Not disposed of within 6 months following death," "Distributed," "Sold," "Bond paid on maturity," etc. In this same column, describe each item of principal and includible income; (3) The date of death value, entered in the appropriate value column with items of principal and includible income shown separately; (4) The alternate value, entered in the appropriate value column with items of principal and includible income shown separately. In the case of any interest or estate, the value of which is affected by lapse of time, such as patents, leaseholds, estates for the life of another, or remainder interests, the value shown under the heading "Alternate value" must be the adjusted value (i.e., the value as of the date of death with an adjustment reflecting any difference in its value as of the later date not due to lapse of time).

Distributions, sales, exchanges, and other dispositions of the property within the 6-month period after the decedent's death must be supported by evidence. If the court issued an order of distribution during that period, you must submit a certified copy of the order as part of the evidence. The District Director may require you to submit additional evidence if necessary.

Line 2.—Special Use Valuation of Section 2032A.—Under section 2032A, you may elect to value certain farm and closely held business real property at its farm or business use value rather than its fair market value. You may elect both special use valuation and alternate valuation. To elect this valuation you must check "Yes" to line 2 and complete and attach Schedule A-1 and its required additional statements. You must file **Schedule A-1 and its required attachments with Form 706 for this election to be valid.** You may make the election on a late filed return so long as it is the first return filed.

The total value of the property valued under section 2032A may not be decreased from fair market value by more than $750,000.

Real property may qualify for the section 2032A election if:

1. The decedent was a U.S. citizen or resident at the time of death;
2. The real property is located in the United States;
3. The real property is used for farming or in a trade or business or is rented for such use by the surviving spouse to a family member on a net cash basis;
4. The real property was acquired from or passed from the decedent to a qualified heir of the decedent;
5. The real property was owned and used in a qualified manner by the decedent or a member of the decedent's family during 5 of the 8 years before the decedent's death; and
6. The qualified property is the percentage of the decedent's gross estate specified in section 2032A.

For definitions and additional information, see section 2032A and the related regulations.

Include the words "section 2032A valuation" in the "Description" column of any Form 706 schedule if section 2032A property is included in the decedent's gross estate.

An election under section 2032A need not include all the property in an estate which is eligible for special use valuation, but sufficient property to satisfy the threshold requirements of section 2032A(b)(1)(B) must be specially valued under the election. If joint or undivided interests (e.g., interests as joint tenants or tenants in common) in the same property are received from a decedent by qualified heirs, an election with respect to one heir's joint or undivided interest need not include any other heir's interest in the same property if the electing heir's interest plus other property to be specially valued satisfies the requirements of section 2032A(b)(1)(B). If successive interests (e.g., life estates and remainder interests) are created by a decedent in otherwise qualified property, an election under section 2032A is available only with respect to that property (or part) in which qualified heirs of the decedent receive all of the successive interests, and such an election must include the interests of all of those heirs. For example, if a surviving spouse receives a life estate in otherwise qualified property and

the spouse's brother receives a remainder interest in fee, no part of the property may be valued pursuant to an election under section 2032A. Where successive interests in specially valued property are created, remainder interests are treated as being received by qualified heirs only if the remainder interests are not contingent on surviving a nonfamily member or are not subject to divestment in favor of a nonfamily member.

Protective Election.—You may make a protective election to specially value qualified real property. Under this election, whether or not you may ultimately use special use valuation depends upon values as finally determined (or agreed to following examination of the return) meeting the requirements of section 2032A.

To make a protective election, check "Yes" to line 2 and complete Schedule A-1 according to the instructions for "Protective Election."

If you make a protective election, you should complete this Form 706 by valuing all property at its fair market value. Do not use special use valuation. Usually, this will result in higher estate and GST tax liabilities than will be ultimately determined if special use valuation is allowed. **The protective election does not extend the time to pay the taxes shown on the return.** If you wish to extend the time to pay the taxes, you should file Form 4768 in adequate time *before* the return due date.

If it is found that the estate qualifies for special use valuation based on the values as finally determined (or agreed to following examination of the return), you must file an amended Form 706 (with a complete section 2032A election) within 60 days after the date of this determination. Complete the amended return using special use values under the rules of section 2032A, and complete Schedule A-1 and attach *all* of the required statements.

Line 3.—Installment Payments.—If you check this line to make a protective election, you should attach a notice of protective election as described in Regulations section 20.6166-1(d). If you check this line to make a final election, you should attach the notice of election described in Regulations section 20.6166-1(b).

In computing the adjusted gross estate under section 6166(b)(6) to determine whether an election may be made under section 6166, the net amount of any real estate in a closely held business must be used.

You may also elect to pay GST taxes in installments. See section 6166(i).

Line 4.—Reversionary or remainder interests.—For the details of this election, see section 6163 and the related regulations.

Instructions for Part 4.—General Information (pages 2 and 3)

Power of Attorney

Completing the authorization on page 2 of Form 706 will authorize one attorney, accountant, or enrolled agent to represent the estate and receive confidential tax information, but will not authorize the representative to enter into closing agreements for the estate. **If you wish to represent the estate, you must complete and sign the authorization.** Completing the authorization has the same effect as checking every box on **Form 2848-D,** Tax Information Authorization and Declaration of Representative. Therefore, you need not attach Form 2848-D in this situation.

However, you must complete and attach Form 2848-D if you wish to authorize persons other than attorneys, accountants, and enrolled agents or if you wish to authorize more than one person to receive confidential information or represent the estate.

If you wish to authorize someone to enter into closing agreements for the estate, you must complete and attach **Form 2848,** Power of Attorney and Declaration of Representative.

Note: *At the time this form went to print, IRS was developing a new* **Form 8821,** *Tax Information Authorization, to replace the tax information authorization portion of Form 2848-D. When Form 8821 is issued, Form 2848-D will become obsolete. All appointments of representatives to act before the IRS will then have to be made on Form 2848.*

Line 4.—Complete line 4 whether or not there is a surviving spouse and whether or not the surviving spouse received any benefits from the estate. If there was no surviving spouse on the date of decedent's death, enter "None" in line 4a and leave lines 4b and 4c blank. The value entered in line 4c need not be exact. See the instructions for "Amount," under line 5, below.

Line 5

Name.—Enter the name of each individual, trust, or estate who received (or will receive) benefits of $5,000 or more from the estate directly as an heir, next-of-kin, devisee, or legatee; or indirectly (for example, as beneficiary of an annuity or insurance policy, shareholder of a corporation, or partner of a partnership that is an heir, etc.).

Identifying Number.—Enter the social security number of each individual beneficiary listed. If the number is unknown, or the individual has no number, please indicate "unknown" or "none." For trusts and other estates, enter the employer identification number.

Relationship.—For each individual beneficiary enter the relationship (if known) to the decedent by reason of blood, marriage, or adoption. For trust or estate beneficiaries, indicate TRUST or ESTATE.

Amount.—Enter the amount actually distributed (or to be distributed) to each beneficiary including transfers during the decedent's life from Schedule G required to be included in the gross estate. The value to be entered need not be exact. A reasonable estimate is sufficient. For example, where precise values cannot readily be determined, as with certain future interests, a reasonable approximation should be entered. The total of these distributions should approximate the amount of gross estate reduced by funeral and administrative expenses, debts and mortgages, bequests to surviving spouse, charitable bequests, and any Federal and state estate and GST taxes paid (or payable) relating to the benefits received by the beneficiaries listed on lines 4 and 5.

All distributions of less than $5,000 to specific beneficiaries may be included with distributions to unascertainable beneficiaries on the line provided.

Line 6 —Section 2044 property.—If you answered "Yes," these assets must be shown on Schedule F.

Section 2044 property is property for which a previous section 2056(b)(7) election (QTIP election) has been made, or for which a similar gift tax election (section 2523) has been made. For more details see Pub. 448.

Line 8.—Insurance not included in the gross estate.—If you checked "Yes" for either 8a or 8b, you must complete and attach Schedule D and attach a **Form 712,** Life Insurance Statement, for each policy and an explanation of why the policy or its proceeds are not includible in the gross estate.

Line 10.—Partnership interests and stock in close corporations.—If you answered "Yes" to line 10, full details for partnerships and unincorporated businesses must be included on Schedule F (Schedule E if the partnership interest is jointly owned). Full details for the stock of inactive or close corporations must be included on Schedule B.

These interests are to be valued using the rules of Regulations section 20.2031-2 (stocks) or 20.2031-3 (other business interests).

A "close corporation" is a corporation whose shares are owned by a limited number of shareholders. Often, the entire stock issue is held by one family. As a result, little, if any, trading of the stock takes place. There is, therefore, no established market for the stock, and those sales that do occur are at irregular intervals and seldom reflect all the elements of a representative transaction as defined by the term "fair market value."

Line 12.—Trusts.—If you answered "Yes" to either 12a or 12b, you must attach a copy of the trust instrument for each trust.

You must complete Schedule G if you answered "Yes" to 12a and Schedule F if you answered "Yes" to 12b.

Line 14.—Transitional marital deduction computation.—You must check "Yes" if property passes to the surviving spouse under a maximum marital deduction formula provision that meets the requirements of section 403(e)(3) of the Economic Recovery Tax Act of 1981 (Pub. L. 97-34; 95 Stat. 305).

If you check "Yes" to line 14, you must compute the marital deduction under the rules that were in effect before the Economic Recovery Tax Act of 1981.

For a format for this computation, you should obtain the November 1981 revision of Form 706 and its instructions. The computation is items 19 through 26 of the Recapitulation. You should also apply the rules of Rev. Rul. 80-148, 1980-1 C.B. 207, if there is property that passes to the surviving spouse outside of the maximum marital deduction formula provision.

Line 16.—Excess Retirement Accumulation.—If the decedent died before January 1, 1987, check "No" to this question. If the decedent died after December 31, 1986, but did not have any

interest in a qualified employer plan or individual retirement plan (defined in section 7701(a)(37)), check "No" to this question.

Note: *The tax on excess retirement accumulations will not apply to most decedents because the present value of the hypothetical annuity is usually so large that very few decedents will have a larger total interest in qualified plans and individual retirement plans. The rules below are a general description of the section 4980A(d) excess retirement accumulation. If it appears, after reading these rules, that there is a possibility that there is such an excess, see the instructions for Schedule S below for more information.*

A "qualified plan" means any:

(1) Qualified pension, profit-sharing, or stock bonus plan described in section 401(a) that includes a trust exempt from tax under section 501(a);

(2) Annuity plan described in section 403(a);

(3) Annuity contract, custodial account, or retirement income account described in section 403(b)(1), 403(b)(7), or 403(b)(9);

(4) Qualified bond purchase plan described in section 405(a) prior to that section's repeal by section 491(a) of the Tax Reform Act of 1984.

To determine if the decedent had an excess retirement accumulation, you must first total all of the decedent's interests (as of the date of death) in qualified plans and individual retirement plans. Then determine the present (date of death or alternate valuation date) value of a hypothetical life annuity for the decedent. This hypothetical life annuity must pay the decedent the greater of $150,000 (unindexed) or $112,500 (indexed) per year, times the multiplier described in the instructions for line 3, Part III, of Schedule S. The instructions are on page 21.

If the decedent's total interest in the plans is greater than the value of this hypothetical annuity, then there is an excess retirement accumulation, and you should check "Yes" to Question 16 and attach Schedule S to your return.

Instructions for Part 5.— Recapitulation (Page 3 of Form 706)

Gross Estate

Items 1 through 9.—You must make an entry in each of items 1 through 9. If the gross estate does not contain any assets of the type specified by a given item, enter "-0-" for that item. An entry of "-0-" for any of items 1 through 9 is a statement by the executor, made under penalties of perjury, that the gross estate does not contain any includible assets covered by that item. Do not enter any amounts in the "Alternate value" column unless you elected alternate valuation on line 1 of Elections by the Executor.

Which Schedules To Attach for Items 1 Through 9

You must attach Schedule F to the return and answer its questions even if you report no assets on it.

You must attach Schedules A, B, and C if the gross estate includes any Real Estate; Stocks and Bonds; or Mortgages, Notes and Cash, respectively. You must attach Schedule D if the gross estate includes any Life Insurance or if you answered "Yes" to question 8a. You must attach Schedule E if the gross estate contains any Jointly Owned Property or if you answered "Yes" to question 9. You must attach Schedule G if the decedent made any of the lifetime transfers to be listed on that schedule or if you answered "Yes" to question 11 or 12a. You must attach Schedule H if you answered "Yes" to question 13. You must attach Schedule I if you answered "Yes" to question 15.

Deductions

Items 11 through 19.—You must attach the appropriate schedules for the deductions you claim.

Item 15.—If item 14 is less than or equal to the value (at the time of the decedent's death) of the property subject to claims, enter the amount from item 14 on item 15. If the amount on item 14 is more than the value of the property subject to claims, enter on item 15 the amount subject to claims. However, if the amount actually paid at the time the return is filed is more than the amount subject to claims, enter the amount actually paid rather than the amount subject to claims. In no event may you enter more on item 15 than on item 14. See section 2053 and the related regulations for more information.

Instructions for Part 2.— Tax Computation (Page 1 of Form 706)

General.—In general, the estate tax is figured by applying the unified rates shown in Table A to both transfers during life and transfers at death, and then subtracting the gift taxes. **You must complete the Tax Computation.**

Specific Instructions

Line 1.—If you elected alternate valuation, enter the amount you entered in the "Alternate Value" column of item 10 of Part 5, Recapitulation. Otherwise, enter the amount from the "Value at date of death" column.

Lines 4 and 9.—Three worksheets are provided to help you compute the entries for these lines. You need not file these worksheets with your return but should keep them for your records. Worksheet TG allows you to reconcile the decedent's lifetime taxable gifts to compute totals that will be used for the line 4 and line 9 worksheets. You must get all of the decedent's gift tax returns (Form 709) before you complete Worksheet TG. The amounts you will enter on Worksheet TG can usually be derived from these returns as filed. However, if any of the returns were audited by the IRS, you should use the amounts that were finally determined as a result of the audits.

Special Treatment of Split Gifts

These special rules apply only if:

1. The decedent's spouse predeceased the decedent;
2. The decedent's spouse made gifts which were "split" with the decedent under the rules of section 2513;
3. The decedent was the "consenting spouse" for those split gifts, as that term is used on Form 709; and
4. The split gifts were included in the decedent's spouse's gross estate under section 2035.

If all four conditions above are met, *do not include* these gifts on line 4 of the Tax Computation and *do not include* the gift taxes payable on these gifts on line 9 of the Tax Computation. These adjustments are incorporated into the worksheets.

Line 7.—Lines 7a–c are used to calculate the phaseout of the unified credit and graduated rates. The phaseout applies only to estates in which the amount the tentative tax is computed on exceeds $10 million.

Line 11.—Enter the amount of unified credit that applies for the year of the decedent's death using Table B on page 7.

Line 12.—If the decedent made gifts (including gifts made by the decedent's spouse and treated as made by the decedent by reason of gift splitting) after September 8, 1976, and before January 1, 1977, for which the decedent claimed a specific exemption, the unified credit on this estate tax return must be reduced. The reduction is figured by entering 20% of the specific exemption claimed for these gifts. (**Note:** *The specific exemption was allowed by section 2521 for gifts made before January 1, 1977.)*

If the decedent did not make any gifts between September 8, 1976, and January 1, 1977, or if the decedent made gifts during that period but did not claim the specific exemption, enter "-0-".

Line 15.—You may take a credit on line 15 for estate, inheritance, legacy, or succession taxes paid as the result of the decedent's death to any state or the District of Columbia. However, see section 2053(d) and the related regulations for exceptions and limits if you elected to deduct the taxes from the value of the gross estate.

If you make a section 6166 election to pay the Federal estate tax in installments and make a similar election to pay the state death tax in installments, see Rev. Rul. 86-38, 1986-1 C.B. 296, for the method of computing the credit allowed with this Form 706.

The credit may not be more than the amount figured by using Table C on page 7, based on the value of the adjusted taxable estate. The adjusted taxable estate is the amount of the Federal taxable estate (line 3 of the Tax Computation) reduced by $60,000. You may claim an anticipated amount of credit and figure the Federal estate tax on the return before the state death taxes have been paid. However, the credit cannot be finally allowed unless you pay the state death taxes and claim the credit within 4 years after the return is filed (or later as provided by the Code if a petition is filed with the Tax Court of the United States, or if you have an extension of time to pay) and submit evidence that the tax has been paid. If you claim the credit for any state death tax which is later recovered, see Regulations section 20.2016-1 for the notice you are required to give IRS within 30 days.

If you transfer property other than cash to the state in payment of state inheritance taxes, the amount you may claim as credit is the lesser of the state inheritance tax liability discharged or the fair market value of the property on the date of the transfer.

Worksheet TG Taxable Gifts Reconciliation

To be used for lines 4 and 9 of the Tax Computation

	Calendar year or calendar quarter a.	Total taxable gifts reported on Form 709 for period (see Note) b.	**Note:** *For the definition of a taxable gift see section 2503. Ignore the old specific exemption. Follow Form 709. That is, include only the decedent's one-half of split gifts, whether the gifts were made by the decedent or the decedent's spouse.*			
Gifts made after June 6, 1932 and before 1977			Taxable amount included in col. b for gifts included in the gross estate c.	Taxable amount included in col. b for gifts that qualify for "special treatment of split gifts" described above d.	Gift tax paid by decedent on gifts in col. d e.	Gift tax paid by decedent's spouse on gifts in col. c f.
	1. Total taxable gifts made before 1977					
Gifts made after 1976						
2. Totals for gifts made after 1976						

Line 4 Worksheet Adjusted Taxable Gifts Made After 1976

1. Taxable gifts made after 1976. Enter the amount from line 2, column b, Worksheet TG		
2. Taxable gifts made after 1976 reportable on Schedule G. Enter the amount from line 2, column c, Worksheet TG		
3. Taxable gifts made after 1976 that qualify for "special treatment." Enter the amount from line 2, column d, Worksheet TG		
4. Add lines 2 and 3		
5. Adjusted taxable gifts. Subtract line 4 from line 1. Enter here and on line 4 of the Tax Computation of Form 706		

Line 9 Worksheet Gift Tax on Gifts Made After 1976

Calendar year or calendar quarter a.	Total taxable gifts for prior periods (from Form 709, Tax Computation, line 2) b.	Taxable gifts for this period (from Form 709, Tax Computation, line 1) c.	Tax payable using Table A (see below) d.	Unused unified credit for this period (see below) e.	Tax payable for this period (subtract col. e from col. d) f.
Total pre-1977 taxable gifts. Enter the amount from line 1, Worksheet TG					

1. Total gift taxes payable on gifts made after 1976 (combine the amounts in column f)	
2. Gift taxes paid by the decedent on gifts that qualify for "special treatment." Enter the amount from line 2, column e, Worksheet TG above	
3. Subtract line 2 from line 1	
4. Gift tax paid by decedent's spouse on split gifts included on Schedule G. Enter the amount from line 2, column f, Worksheet TG above	
5. Add lines 3 and 4. Enter here and on line 9 of the Tax Computation of Form 706	

Column d: To figure the "tax payable" for this column, you must use Table A in these instructions, *as it applies to the year of the decedent's death rather than to the year the gifts were actually made.* To compute the entry for col. d, you should figure the "tax payable" on the amount in col. b and subtract it from the "tax payable" on the amounts in cols. b and c added together. Enter the difference in col. d.

If the amount in columns b and c combined exceeds $10,000,000 *for any given calendar year,* then you must calculate the tax in column d for that year using the Form 709 revision in effect for the *year of the decedent's death.*

To calculate the tax, enter the amount for the appropriate year from column c of the worksheet on line 1 of the Tax Computation of the Form 709. Enter the amount from column b on line 2 of the Tax Computation. Complete the Tax Computation through the tax due before any reduction for the unified credit and enter that amount in column d, above.

Column e: To figure the unused unified credit, use the unified credit in effect for the year the gift was made. This amount should be on line 12 of the Tax Computation of the Form 709 filed for the gift.

For more details, see Rev. Rul. 86-117, 1986-2 C.B. 157.

You should send the following evidence to the Internal Revenue Service:

1. Certificate of the proper officer of the taxing state, or the District of Columbia, showing: (a) the total amount of tax imposed (before adding interest and penalties and before allowing discount); (b) the amount of discount allowed; (c) the amount of penalties and interest imposed or charged; (d) the total amount actually paid in cash; and (e) the date of payment.
2. Any additional proof the Internal Revenue Service specifically requests.

You should file the evidence requested above with the return if possible. Otherwise, send it as soon after you file the return as possible.

Line 17.—You may take a credit for Federal gift taxes imposed by Chapter 12 of the Code, and the corresponding provisions of prior laws, on certain transfers the decedent made before January 1, 1977, that are included in the gross estate. The credit cannot be more than the amount figured by the following formula:

$$\frac{\text{Gross estate tax minus (the sum of the state death taxes and unified credit)}}{\text{Value of gross estate minus (the sum of the deductions for charitable, public, and similar gifts and bequests and marital deduction)}} \times \text{Value of included gift}$$

For more information, see the regulations under section 2012. This computation may be made using **Form 4808,** Computation of Credit for Gift Tax. Attach a copy of a completed Form 4808 or the computation of the credit. Also attach all available copies of Forms 709 filed by the decedent to help verify the amounts entered on lines 4, 9, and 17.

Line 23.—If you answered "Yes" to question 16 of General Information, you must complete Schedule S . Enter the tax due from line 17 of Schedule S on line 23. This increased estate tax may not be offset by any of the estate tax credits on lines 11–19.

Line 26.—You may not use these bonds to pay the GST tax. You may use these bonds to pay the increased estate tax shown on line 23.

Instructions for Schedule A.—Real Estate

See the reverse side of Schedule A on Form 706.

Instructions for Schedule B.—Stocks and Bonds

General.—If the total gross estate contains any stocks or bonds, you must complete Schedule B and file it with the return.

On Schedule B list the stocks and bonds included in the decedent's gross estate. Number each item in the left-hand column. **Bonds that are exempt from Federal income taxes are not exempt from estate taxes unless specifically exempted by an estate tax provision of the Code.** Therefore, you should list these bonds on Schedule B.

Public housing bonds includible in the gross estate must be included at their full value.

If you paid any estate, inheritance, legacy, or succession tax to a foreign country on any stocks or bonds included in

Table A—Unified Rate Schedule

Column A Taxable amount over	Column B Taxable amount not over	Column C Tax on amount in column A	Column D Rate of tax on excess over amount in column A
			(Percent)
0	$10,000	0	18
$10,000	20,000	$1,800	20
20,000	40,000	3,800	22
40,000	60,000	8,200	24
60,000	80,000	13,000	26
80,000	100,000	18,200	28
100,000	150,000	23,800	30
150,000	250,000	38,800	32
250,000	500,000	70,800	34
500,000	750,000	155,800	37
750,000	1,000,000	248,300	39
1,000,000	1,250,000	345,800	41
1,250,000	1,500,000	448,300	43
1,500,000	2,000,000	555,800	45
2,000,000	2,500,000	780,800	49
2,500,000	3,000,000	1,025,800	53
3,000,000	--------	1,290,800	55

Table B

Maximum Unified Credit Against Estate Tax	
For decedents dying—	The credit is—
1987 and later	192,800

Table C Worksheet

Federal Adjusted Taxable Estate		
1	Federal taxable estate (from Tax Computation, Form 706, line 3)	$
2	Adjustment	60,000
3	Federal adjusted taxable estate. Subtract line 2 from line 1. Use this amount to compute maximum credit for state death taxes in Table C.	

Table C

Computation of Maximum Credit for State Death Taxes

(Based on Federal adjusted taxable estate computed using the worksheet above.)

Adjusted taxable estate equal to or more than— (1)	Adjusted taxable estate less than— (2)	Credit on amount in column (1) (3)	Rate of credit on excess over amount in column (1) (4)	Adjusted taxable estate equal to or more than— (1)	Adjusted taxable estate less than— (2)	Credit on amount in column (1) (3)	Rate of credit on excess over amount in column (1) (4)
			(Percent)				(Percent)
0	$40,000	0	None	2,040,000	2,540,000	106,800	8.0
$40,000	90,000	0	0.8	2,540,000	3,040,000	146,800	8.8
90,000	140,000	$400	1.6	3,040,000	3,540,000	190,800	9.6
140,000	240,000	1,200	2.4	3,540,000	4,040,000	238,800	10.4
240,000	440,000	3,600	3.2	4,040,000	5,040,000	290,800	11.2
440,000	640,000	10,000	4.0	5,040,000	6,040,000	402,800	12.0
640,000	840,000	18,000	4.8	6,040,000	7,040,000	522,800	12.8
840,000	1,040,000	27,600	5.6	7,040,000	8,040,000	650,800	13.6
1,040,000	1,540,000	38,800	6.4	8,040,000	9,040,000	786,800	14.4
1,540,000	2,040,000	70,800	7.2	9,040,000	10,040,000	930,800	15.2
				10,040,000	--------	1,082,800	16.0

Examples showing use of Schedule B

Example where the alternate valuation is not adopted; date of death, January 1, 1990

Item number	Description including face amount of bonds or number of shares and par value where needed for identification. Give CUSIP number if available.	Unit value	Alternate valuation date	Alternate value	Value at date of death
1	$60,000-Arkansas Railroad Co. first mortgage 4%, 20-year bonds, due 1993. Interest payable quarterly on Feb. 1, May 1, Aug. 1 and Nov. 1; N.Y. Exchange, CUSIP No. XXXXXXXXX	100	.....	.....	60,000
	Interest coupons attached to bonds, item 1, due and payable on Nov. 1, 1989, but not cashed at date of death	.....	.....	.....	600
	Interest accrued on item 1, from Nov. 1, 1989, to Jan. 1, 1990	.....	.....	.....	400
2	500 shares Public Service Corp., common; N.Y. Exchange, CUSIP No. XXXXXXXXX	110	.....	.....	55,000
	Dividend on item 2 of $2 per share declared Dec. 10, 1989, payable on Jan. 10, 1990, to holders of record on Dec. 30, 1989	.....	.....	.....	1,000

Example where the alternate valuation is adopted; date of death, January 1, 1990

Item number	Description including face amount of bonds or number of shares and par value where needed for identification. Give CUSIP number if available.	Unit value	Alternate valuation date	Alternate value	Value at date of death
1	$60,000-Arkansas Railroad Co. first mortgage 4%, 20-year bonds, due 1993. Interest payable quarterly on Feb. 1, May 1, Aug. 1 and Nov. 1; N.Y. Exchange, CUSIP No. XXXXXXXXX	100	.....	.....	60,000
	$30,000 of item 1 distributed to legatees on Apr. 1, 1990	99	4/1/90	29,700	.....
	$30,000 of item 1 sold by executor on May 2, 1990	98	5/2/90	29,400	.....
	Interest coupons attached to bonds, item 1, due and payable on Nov. 1, 1989, but not cashed at date of death. Cashed by executor on Feb. 1, 1990	.....	2/1/90	600	600
	Interest accrued on item 1, from Nov. 1, 1989, to Jan. 1, 1990. Cashed by executor on Feb. 1, 1990	.....	2/1/90	400	400
2	500 shares of Public Service Corp., common; N.Y. Exchange, CUSIP No. XXXXXXXXX	110	.....	.....	55,000
	Not disposed of within 6 months following death	90	7/1/90	45,000	.....
	Dividend on item 2 of $2 per share declared Dec. 10, 1989, and paid on Jan. 10, 1990, to holders of record on Dec. 30, 1989	.....	1/10/90	1,000	1,000

this schedule, group those stocks and bonds together and label them "Subjected to Foreign Death Taxes."

List interest and dividends on each stock or bond separately. Indicate as a separate item dividends that have not been collected at death, but which are payable to the decedent or the estate because the decedent was a stockholder of record on the date of death. However, if the stock is being traded on an exchange and is selling ex-dividend on the date of the decedent's death, do not include the amount of the dividend as a separate item. Instead, add it to the ex-dividend quotation in determining the fair market value of the stock on the date of the decedent's death. Dividends declared on shares of stock before the death of the decedent but payable to stockholders of record on a date after the decedent's death are not includible in the gross estate for Federal estate tax purposes.

Description

For stocks indicate:

- Number of shares
- Whether common or preferred
- Issue
- Par value where needed for identification
- Price per share
- Exact name of corporation
- Principal exchange upon which sold, if listed on an exchange
- CUSIP number, if available

For bonds indicate:

- Quantity and denomination
- Name of obligor
- Date of maturity
- Interest rate
- Interest due date
- Principal exchange, if listed on an exchange
- CUSIP number, if available

If the stock or bond is unlisted, show the company's principal business office.

The CUSIP (Committee on Uniform Security Identification Procedure) number is a nine-digit number that is assigned to all stocks and bonds traded on major exchanges and many unlisted securities. Usually, the CUSIP number is printed on the face of the stock certificate. If the CUSIP number is not printed on the certificate, it may be obtained through the company's transfer agent.

Valuation.—List the fair market value of the stocks or bonds. The fair market value of a stock or bond (whether listed or unlisted) is the mean between the highest and lowest selling prices quoted on the valuation date. If only the closing selling prices are available, then the fair market value is the mean between the quoted closing selling price on the valuation date and on the trading day before the valuation date. To figure the fair market value if there were no sales on the valuation date:

1. Find the mean between the highest and lowest selling prices on the nearest trading date before and the nearest trading date after the valuation date. Both trading dates must be reasonably close to the valuation date.
2. Prorate the difference between the mean prices to the valuation date.
3. Add or subtract (whichever applies) the prorated part of the difference to or from the mean price figured for the nearest trading date before the valuation date.

If no actual sales were made reasonably close to the valuation date, make the same computation using the mean between the bona fide bid and asked prices instead of sales prices. If actual sales prices or bona fide bid and asked prices are available within a reasonable period of time before the valuation date but not after the valuation date, or vice versa, use the mean between the highest and lowest sales prices or bid and asked prices as the fair market value.

For example, assume that sales of stock nearest the valuation date (June 15) occurred 2 trading days before (June 13) and 3 trading days after (June 18). On those days the mean sale prices per share

were $10 and $15, respectively. Therefore, the price of $12 is considered the fair market value of a share of stock on the valuation date. If, however, on June 13 and 18, the mean sale prices per share were $15 and $10, respectively, the fair market value of a share of stock on the valuation date is $13.

If only closing prices for bonds are available, see Regulations section 20.2031-2(b).

Apply the rules in the section 2031 regulations to determine the value of inactive stock and stock in close corporations. Send with the schedule complete financial and other data used to determine value, including balance sheets (particularly the one nearest to the valuation date) and statements of the net earnings or operating results and dividends paid for each of the 5 years immediately before the valuation date.

Securities reported as of no value, nominal value, or obsolete should be listed last. Include the address of the company and the state and date of the incorporation. Attach copies of correspondence or statements used to determine the "no value."

If the security was listed on more than one stock exchange, use either the records of the exchange where the security is principally traded or the composite listing of combined exchanges, if available, in a publication of general circulation. In valuing listed stocks and bonds, you should carefully check accurate records to obtain values for the applicable valuation date.

If you get quotations from brokers, or evidence of the sale of securities from the officers of the issuing companies, attach to the schedule copies of the letters furnishing these quotations or evidence of sale.

See Rev. Rul. 69-489, 1969-2 C.B. 172, for the special valuation rules for certain marketable U.S. Treasury Bonds (issued before March 4, 1971). These bonds, commonly called "flower bonds," may be redeemed at par plus accrued interest in payment of the tax at any Federal Reserve bank, the office of the Treasurer of the United States, or the Bureau of the Public Debt, as explained in Rev. Proc. 69-18, 1969-2 C.B. 300.

Instructions for Schedule C.—Mortgages, Notes, and Cash

If the total gross estate contains any mortgages, notes, or cash, you must complete Schedule C and file it with the return.

On Schedule C list mortgages and notes *payable to* the decedent at the time of death. (Mortgages and notes *payable by* the decedent should be listed (if deductible) on Schedule K.) Also list on Schedule C cash the decedent had at the date of death.

Group the items in the following categories and list the categories in the following order:

1. Mortgages.—List: (1) the face value and unpaid balance; (2) date of mortgage; (3) date of maturity; (4) name of maker; (5) property mortgaged; and (6) interest dates and rate of interest. For example: bond and mortgage of $10,000, unpaid balance $4,000; dated January 1, 1980; John Doe to Richard Roe; premises 22 Clinton Street, Newark, N.J.; due January 1, 1990, interest payable at 6% a year January 1 and July 1.

2. Promissory notes.—Describe in the same way as mortgages.

3. Contract by the decedent to sell land.—List: (1) the name of the purchaser; (2) date of contract; (3) description of property; (4) sale price; (5) initial payment; (6) amounts of installment payment; (7) unpaid balance of principal; and (8) interest rate.

4. Cash in possession.—List separately from bank deposits.

5. Cash in banks, savings and loan associations, and other types of financial organizations.—List: (1) the name and address of each financial organization; (2) amount in each account; (3) serial number; and (4) nature of account, indicating whether checking, savings, time deposit, etc. If you obtain statements from the financial organizations, keep them for Internal Revenue Service inspection.

Instructions for Schedule D.—Insurance on the Decedent's Life

See the reverse side of Schedule D on Form 706.

Instructions for Schedule E.—Jointly Owned Property

See the reverse side of Schedule E on Form 706.

Instructions for Schedule F.—Other Miscellaneous Property

See the reverse side of Schedule F on Form 706.

Instructions for Schedule G.—Transfers During Decedent's Life

You must complete Schedule G and file it with the return if the decedent made any of the transfers described below in (1) through (5) or if you answered "Yes" on lines 11 or 12a of Part 4, General Information.

Five types of transfers should be reported on this schedule:

(1) Certain gift taxes.—Section 2035(c). Enter at item A of the Schedule the total value of the gift taxes that were paid by the decedent or the estate on gifts made by the decedent or the decedent's spouse within 3 years before death.

The date of the gift, not the date of payment of the gift tax, determines whether a gift tax paid is included in the gross estate under this rule. Therefore, you should carefully examine the **Forms 709,** United States Gift (and Generation-Skipping Transfer) Tax Return, filed by the decedent and the decedent's spouse to determine what part of the total gift taxes reported on them was attributable to gifts made within 3 years before death. For example, if the decedent died on July 10, 1990, you should examine gift tax returns for 1990, 1989, 1988, and 1987. However, the gift taxes on the 1987 returns that are attributable to gifts made before July 10, 1987, are not included in the gross estate.

Attach an explanation of how you computed the includible gift taxes if you do not include in the gross estate the entire gift taxes shown on any Form 709 filed within 3 years of death. Also attach copies of any pertinent gift tax returns filed by the decedent's spouse within 3 years of death.

(2) Other transfers within 3 years before death.—Section 2035(a). These transfers include *only* the following:

- Any transfer by the decedent with respect to a life insurance policy within 3 years before death.
- Any transfer within 3 years before death of a retained section 2036 life estate, section 2037 reversionary interest or section 2038 power to revoke, etc., if the property subject to the life estate, interest, or power would have been included in the gross estate had the decedent continued to possess the life estate, interest, or power until death.

These transfers are reported on Schedule G regardless of whether a gift tax return was required to be filed for them when they were made. However, the amount includible and the information required to be shown for the transfers are determined:

- For insurance on the life of the decedent using the instructions to Schedule D. (Attach Form(s) 712.)
- For insurance on the life of another using the instructions to Schedule F. (Attach Form(s) 712.)
- For sections 2036, 2037, and 2038 transfers, using paragraphs (3), (4), and (5) of these instructions.

(3) Transfers with retained life estate (section 2036).—These are transfers in which the decedent retained the income from the transferred property or the right to designate the person or persons who will possess or enjoy the transferred property, or the income from the transferred property if the transfer was made:

(a) between March 4, 1931, and June 6, 1932, inclusive, and the decedent alone retained the right to so designate for life, or for any period which did not in fact end before the decedent's death; or

(b) after June 6, 1932, and the decedent retained the right to so designate, either alone or with any person, for life, for any period that must be ascertained by reference to the decedent's death, or for any period which did not in fact end before the decedent's death.

Retained Voting Rights. Transfers with a retained life estate also include transfers of stock in a "controlled corporation" after June 22, 1976, if the decedent retained or acquired voting rights in the stock. If the decedent retained direct or indirect voting rights in a controlled corporation, the decedent is considered to have retained enjoyment of the transferred property. A corporation is a "controlled corporation" if the decedent owned (actually or constructively) or had the right (either alone or with any other person) to vote at least 20% of the total combined voting power of all classes of stock. See section 2036(b). If these voting rights ceased or were relinquished within 3 years before the decedent's death, the corporate interests are included in the gross estate as if the decedent had actually retained the voting rights until death.

Asset Freezes. For transfers occurring after December 17, 1987, if the decedent held a substantial interest in an enterprise and, in effect, transferred a disproportionate share of the potential appreciation in the enterprise while retaining an interest in the income of, or rights in, the enterprise, then the retained interest is considered the retention of a life estate in the transferred property. This rule does not apply to bona fide sales to non-family members. A person holds a substantial interest in an enterprise if the person owns (directly or indirectly) 10 percent or more of the voting power or income stream, or both, in such enterprise. In general, the decedent and members of the decedent's family are treated as one person for the purpose of determining ownership.

For rules excepting certain transfers from the asset freeze rule, see section 2036(c)(7).

For potential gift tax liability, see section 2036(c)(4) as amended by section 3031(a) of the 1988 Act.

(4) Transfers taking effect at death (section 2037).—These are transfers made on or after September 8, 1916, that took effect at the decedent's death. A transfer that takes effect at the decedent's death is one under which possession or enjoyment can be obtained only by surviving the decedent. A transfer is not treated as one that takes effect at the decedent's death unless the decedent retained a reversionary interest in the property which immediately before the decedent's death had a value of more than 5% of the value of the transferred property. If the transfer was made before October 8, 1949, the reversionary interest must have arisen by the express terms of the instrument of transfer.

(5) Revocable Transfers (section 2038).—These are transfers in which the enjoyment of the transferred property was subject at decedent's death to any change through the exercise of a power to alter, amend, revoke, or terminate, as follows:

- If the transfer was made before 4:01 p.m., eastern standard time, June 2, 1924, and the power was reserved at the time of the transfer and was exercisable by the decedent alone or with a person who had no substantial adverse interest in the transferred property.
- If the transfer was made on or after 4:01 p.m., eastern standard time, June 2, 1924, and before June 23, 1936, and the power was reserved at the time of the transfer and was exercisable by the decedent alone or with any person (regardless of whether that person had a substantial adverse interest in the transferred property), or
- If the transfer was made after June 22, 1936, regardless of whether the power was reserved at the time of the transfer or later created or conferred, regardless of the source from which the power was acquired, regardless of whether the power was exercisable by the decedent alone or with any person, and regardless of whether that person had a substantial adverse interest in the transferred property.
- If the decedent relinquished within 3 years before death any of the includible powers described above, you should determine the gross estate as if the decedent had actually retained the powers until death.

For more detailed information on which transfers are includible in the gross estate, see the Estate Tax Regulations.

How To Complete Schedule G

All transfers (other than outright transfers not in trust and bona fide sales) made by the decedent at any time during life must be reported on the Schedule regardless of whether you believe the transfers are subject to tax. If the decedent made any transfers not described in the instructions above, the transfers should not be shown on Schedule G. Instead, attach a statement describing these transfers: list the date of the transfer, the amount or value, and the type of transfer.

Complete the schedule for each transfer that is included in the gross estate under sections 2035(a), 2036, 2037, and 2038 as described above.

In the "Item number" column, number each transfer consecutively beginning with 1.

In the "Description" column, list the name of the transferee, and the date of the transfer and give a complete description of the property. Transfers included in the gross estate should be valued on the date of the decedent's death or, if the alternate valuation is adopted, according to section 2032.

If only part of the property transferred meets the terms of section 2035(a), 2036, 2037, or 2038, then only a corresponding part of the value of the property should be included in the value of the gross estate. If the transferee makes additions or improvements to the property, the increased value of the property at the valuation date should not be included on Schedule G. However, if only a part of the value of the property is included, enter the value of the whole under the column headed "Description" and explain what part was included.

Attachments.—If a transfer, by trust or otherwise, was made by a written instrument, attach a copy of the instrument to the Schedule. If of public record, the copy should be certified; if not of record, the copy should be verified.

Instructions for Schedule H.—Powers of Appointment

You must complete Schedule H and file it with the return if you answered "Yes" to line 13 of Part 4, General Information.

On Schedule H include in the gross estate:

1. The value of property for which the decedent possessed a general power of appointment on the date of his or her death; and
2. The value of property for which the decedent possessed a general power of appointment which he or she exercised or released before death by disposing of it in such a way that if it were a transfer of property owned by the decedent, the property would be includible in the decedent's gross estate. (See section 2041 and Pub. 448 for more details.)

Powers of Appointment.—A power of appointment includes all powers which are in substance and effect powers of appointment regardless of how they are identified and regardless of local property laws. For example, if a settlor transfers property in trust for the life of his wife, with a power in the wife to appropriate or consume the principal of the trust, the wife has a power of appointment.

General Power of Appointment.—A general power of appointment is a power which is exercisable in favor of the decedent, the decedent's estate, the decedent's creditors, or the creditors of the decedent's estate, except:

1. A power to consume, invade, or appropriate property for the benefit of the decedent which is limited by an ascertainable standard relating to health, education, support, or maintenance of the decedent.
2. A power created on or before October 21, 1942, that is exercisable by the decedent only in conjunction with another person.
3. A power created after October 21, 1942, exercisable by the decedent only in conjunction with (a) the creator of the power, or (b) a person who has a substantial interest in the property subject to the power, which is adverse to the exercise of the power in favor of the decedent.

A part of a power created after October 21, 1942, is considered a general power of appointment if the power:

1. May only be exercised by the decedent in conjunction with another person; and
2. Is also exercisable in favor of the other person (in addition to being exercisable in favor of the decedent, the decedent's creditors, the decedent's estate, or the creditors of the decedent's estate).

The part to include in the gross estate as a general power of appointment is figured by dividing the value of the property by the number of persons (including the decedent) in favor of whom the power is exercisable.

Date power was created.—Generally, a power of appointment created by will is considered created on the date of the testator's death. However, a power of appointment created by a will executed on or before October 21, 1942, is considered a power created on or before that date if the person executing the will died before July 1, 1949, without having republished the will, by codicil or otherwise, after October 21, 1942.

A power of appointment created by an intervivos instrument is considered created on the date the instrument takes effect. If the holder of a power exercises it by creating a second power, the second power is considered as created at the time of the exercise of the first.

Attachments.—If the decedent ever possessed a power of appointment, attach a certified or verified copy of the instrument granting the power and a certified or verified copy of any instrument by which the power was exercised or released. You must file these copies even if you contend that the power was not a general power of appointment, and that the property is not otherwise includible in the gross estate.

Instructions for Schedule I.—Annuities

You must complete Schedule I and file it with the return if you answered "Yes" to question 15 of Part 4, General Information.

Enter on Schedule I every annuity that meets all of conditions (1)–(4) under **General,** below, and every annuity described in paragraphs (a)–(h) of **Annuities Under Approved Plans,** even if the annuities are wholly or partially excluded from the gross estate.

See the instructions for line 4 of Schedule M for a discussion regarding the QTIP treatment of certain joint and survivor annuities.

General.—Except as otherwise provided under **Annuities Under Approved Plans,** include in the gross estate on this schedule all or part of the value of an annuity receivable by any beneficiary following the death of the decedent under a contract or agreement that satisfies all four conditions below:

(1) The contract or agreement is not a policy of insurance on the life of the decedent;

(2) The contract or agreement was entered into after March 3, 1931;

(3) The annuity is receivable by the beneficiary because he or she survived the decedent;

(4) Under the contract or agreement, an annuity was payable to the decedent (or the decedent possessed the right to receive the annuity) either alone or in conjunction with another, for the decedent's life or for any period not ascertainable without reference to the decedent's death or for any period that did not in fact end before the decedent's death.

Part includible.—If the decedent contributed only part of the purchase price of the contract or agreement, include in the gross estate only that part of the value of the annuity receivable by the surviving beneficiary that the decedent's contribution to the purchase price of the annuity or agreement bears to the total purchase price. For example, if the value of the survivor's annuity was $20,000 and the decedent had contributed three-fourths of the purchase price of the contract, the amount includible is $15,000 (3/4 x $20,000). Except as provided under **Annuities Under Approved Plans,** contributions made by the decedent's employer to the purchase price of the contract or agreement are considered made by the decedent if they were made by the employer because of the decedent's employment. For more information, see section 2039.

"Annuity" defined.—The term "annuity" includes one or more payments extending over any period of time. The payments may be equal or unequal, conditional or unconditional, periodic or sporadic. The following are examples of contracts (but not necessarily the only forms of contracts) for annuities that must be included in the gross estate:

(a) A contract under which the decedent immediately before death was receiving or was entitled to receive, for the duration of life, an annuity with payments to continue after death to a designated beneficiary, if surviving the decedent;

(b) A contract under which the decedent immediately before death was receiving or was entitled to receive, together with another person, an annuity payable to the decedent and the other person for their joint lives, with payments to continue to the survivor following the death of either;

(c) A contract or agreement entered into by the decedent and employer under which the decedent immediately before death and following retirement was receiving, or was entitled to receive, an annuity payable to the decedent for life and after the decedent's death to a designated beneficiary, if surviving the decedent, whether the payments after the decedent's death are fixed by the contract or subject to an option or election exercised or exercisable by the decedent. However, see **Annuities Under Approved Plans,** below;

(d) A contract or agreement entered into by the decedent and employer under which at the decedent's death, before retirement or before the expiration of a stated period of time, an annuity was payable to a designated beneficiary, if surviving the decedent. However, see **Annuities Under Approved Plans,** below;

(e) A contract or agreement under which the decedent immediately before death was receiving, or was entitled to receive, an annuity for a stated period of time, with the annuity to continue to a designated beneficiary, surviving the decedent, upon the decedent's death before the expiration of that period of time;

(f) An annuity contract or other arrangement providing for a series of substantially equal periodic payments to be made to a beneficiary for life or over a period of at least 36 months after the date of the decedent's death under an individual retirement account, annuity, or bond as described in section 2039(e) (before its repeal by P.L. 98-369)

Annuities Under Approved Plans.—Special rules are provided for the annuities described in (a)-(h) below. It may be possible to exclude part or all of the value of these annuities from the gross estate.

No exclusion is allowed for annuities under approved plans unless either condition (1) or (2) below is met:

(1) On December 31, 1984, the decedent was both a participant in the plan and in pay status, and the decedent irrevocably elected the form of the benefit before July 18, 1984, or

(2) The decedent separated from service before January 1, 1985, and did not change the form of benefit before death.

If either of the above conditions is met, an exclusion is allowed. The exclusion may not exceed $100,000 unless either of the two additional conditions below is met:

(1) On December 31, 1982, the decedent was both a participant in the plan and in pay status, and the decedent irrevocably elected the form of the benefit before January 1, 1983, or

(2) The decedent separated from service before January 1, 1983, and did not change the form of benefit before death.

If either of the above conditions is met, the exclusion is not subject to the $100,000 limitation.

Approved Plans:

(a) An employees' trust (or under a contract purchased by an employees' trust) forming part of a pension, stock bonus, or profit-sharing plan that met all the requirements of section 401(a), either at the time of the decedent's separation from employment (whether by death or otherwise) or at the time of the termination of the plan (if earlier);

(b) A retirement annuity contract purchased by the employer (but not by an employees' trust) under a plan that, at the time of the decedent's separation from employment (by death or otherwise), or at the time of the termination of the plan (if earlier), was a plan described in section 403(a);

(c) A retirement annuity contract purchased for an employee by an employer that is an organization referred to in section 170(b)(1)(A)(ii) or (vi), or that is a religious organization (other than a trust), and that is exempt from tax under section 501(a);

(d) Chapter 73 of title 10 of the United States Code;

(e) A bond purchase plan described in section 405 (before its repeal by P.L. 98-369, effective for obligations issued after December 31, 1983.)

If an annuity under an "approved plan" described in (a)–(e) above is receivable by a beneficiary other than the executor and the decedent made no contributions under the plan toward the cost, no part of the value of the annuity, subject to the $100,000 limitation (if applicable), is includible in the gross estate. If the decedent made a contribution under a plan described in (a)–(e) above toward the cost, include in the gross estate on this schedule that proportion of the value of the annuity which the amount of the decedent's contribution under the plan bears to the total amount of all contributions under the plan. The remaining proportion of the value of the annuity is excludable from the gross estate subject to the $100,000 limitation (if applicable). For the rules to determine whether the decedent made contributions to the plan, see Pub. 448.

Note: *The accounts, annuities, and bonds described in (f)–(h), below, are "approved plans" only if they provide for a series of substantially equal periodic payments to be made to a beneficiary for life, or over a period of at least 36 months after the date of the decedent's death.*

(f) An individual retirement account described in section 408(a);

(g) An individual retirement annuity described in section 408(b);

(h) A retirement bond described in section 409(a)(before its repeal by P.L. 98-369).

Subject to the $100,000 limitation, if applicable, if an annuity under a "plan" described in (f)–(h) above is receivable by a beneficiary other than the executor, the entire value of the annuity is excludable from the gross estate even if the decedent made a contribution under the plan. However, if any payment to or for an account or annuity described in paragraph (f), (g), or (h) above was not allowable as an income tax deduction under section 219 (and was not a rollover contribution as described in section 2039(e) before its repeal by P.L. 98-369), include in the gross estate on this schedule that proportion of the value of the annuity which the amount

not allowable as a deduction under section 219 and not a rollover contribution bears to the total amount paid to or for such account or annuity. For more information, see Regulations section 20.2039-5.

If any part of an annuity under a "plan" described in (a)–(h) above is receivable by the executor, it is generally includible in the gross estate on this schedule to the extent that it is receivable by the executor in that capacity. In general, the annuity is receivable by the executor if it is to be paid to the executor or if there is an agreement (expressed or implied) that it will be applied by the beneficiary for the benefit of the estate (such as in discharge of the estate's liability for death taxes or debts of the decedent, etc.) or that its distribution will be governed to any extent by the terms of the decedent's will or the laws of descent and distribution.

If data available to you does not indicate whether the plan satisfies the requirements of section 401(a), 403(a), 408(a), 408(b), or 409(a), you may obtain that information from the District Director of Internal Revenue for the district where the employer's principal place of business is located.

Line A.—Lump sum distribution election.— The election pertaining to the lump sum distribution from qualified plans (approved plans) excludes from the gross estate all or part of the lump sum distribution which would otherwise be includible. When the recipient makes the election to take a lump sum distribution and include it in his or her income tax, the amount excluded from the gross estate is the portion attributable to the employer contributions. The portion, if any, attributable to the employee-decedent's contributions is always includible. The actual election is made by the recipient of the distribution by taking the lump sum distribution and by treating it as taxable on his or her income tax return as described in Regulations section 20.2039-4(d). The election is irrevocable. However, you may not compute the gross estate in accordance with this election unless you check "Yes" to line A and attach the name, address, and identifying number of the recipients of the lump sum distributions. See Regulations section 20.2039-4.

How to complete the schedule.—In describing an annuity, give the name and address of the grantor of the annuity. Specify if the annuity is under an approved plan. If the annuity is under an approved plan, you must state the ratio of the decedent's contribution to the total purchase price of the annuity. If the decedent was employed at the time of death and an annuity as described in paragraph (d) of "Annuity defined," on page 11, became payable to any beneficiary because the beneficiary survived the decedent, you must state the ratio of the decedent's contribution to the total purchase price of the annuity. If an annuity under an individual retirement account or annuity became payable to any beneficiary because that beneficiary survived the decedent and is payable to the beneficiary for life or for at least 36 months following the decedent's death, you must state the ratio of the amount paid for the individual retirement account or annuity that was not allowable as an income tax deduction under section 219 (other than a rollover contribution) to the total amount paid for the account or annuity. If the annuity is payable out of a trust or other fund, the description should be sufficiently complete to fully identify it. If the annuity is payable for a term of years, include the duration of the term and the date on which it began, and if payable for the life of a person other than the decedent, include the date of birth of that person. If the annuity is wholly or partially excluded from the gross estate, enter the amount excluded under "Description" and explain how you computed the exclusion.

Instructions for Schedule J.—Funeral Expenses and Expenses Incurred in Administering Property Subject to Claims

See the reverse side of Schedule J on Form 706.

Instructions for Schedule K.—Debts of the Decedent and Mortgages and Liens

General.— You must complete and attach Schedule K if you claimed deductions on either item 12 or item 13 of Part 5, Recapitulation.

Debts of the Decedent.—List under "Debts of the Decedent" only valid debts the decedent owed at the time of death. List any indebtedness secured by a mortgage or other lien on property of the gross estate under the heading "Mortgages and Liens." If the amount of the debt is disputed or the subject of litigation, deduct only the amount the estate concedes to be a valid claim. If the claim is contested, enter the amount in contest in the column provided.

Generally, if the claim against the estate is based on a promise or agreement, the deduction is limited to the extent that the liability was contracted bona fide and for an adequate and full consideration in money or money's worth. However, any enforceable claim based on a promise or agreement of the decedent to make a contribution or gift (such as a pledge or a subscription) to or for the use of a charitable, public, religious, etc., organization is deductible to the extent that the deduction would be allowed as a bequest under the statute that applies.

Certain claims of a former spouse against the estate based on the relinquishment of marital rights are deductible on Schedule K. For these claims to be deductible, all of the following conditions must be met:

- The decedent and the decedent's spouse must have entered into a written agreement relative to their marital and property rights.
- The decedent and the spouse must have been divorced before the decedent's death and the divorce must have occurred within the 3-year period beginning on the date one year before the agreement was entered into. It is not required that the agreement be approved by the divorce decree.
- The property or interest transferred under the agreement must be transferred either to the decedent's spouse in settlement of the spouse's marital rights or to provide a reasonable allowance for the support of the children of the marriage during their minority.

You may not deduct a claim made against the estate by a remainderman relating to section 2044 property. Section 2044 property is described in the instructions to line 6 of Part 4, General Information.

Include in this schedule notes unsecured by mortgage or other lien and give full details, including name of payee, face and unpaid balance, date and term of note, interest rate, and date to which interest was paid before death. Include the exact nature of the claim as well as the name of the creditor. If the claim is for services performed over a period of time, state the period covered by the claim. Example: Edison Electric Illuminating Co., for electric service during December 1987, $150.

If the amount of the claim is the unpaid balance due on a contract for the purchase of any property included in the gross estate, indicate the schedule and item number where you reported the property. If the claim represents a joint and separate liability, give full facts and explain the financial responsibility of the co-obligor.

Property and Income Taxes.—The deduction for property taxes is limited to the taxes accrued before the date of the decedent's death. Federal taxes on income received during the decedent's lifetime are deductible, but taxes on income received after death are not deductible.

Keep all vouchers or original records for inspection by the Internal Revenue Service.

Allowable Death Taxes.—If you elect to take a deduction under section 2053(d) rather than a credit under section 2011 or section 2014, the deduction is subject to the limitations described in section 2053(d) and its regulations. If you have difficulty figuring the deduction, you may request a computation of it. Send your request within a reasonable amount of time before the due date of the return to the Commissioner of Internal Revenue, Washington, DC 20224. Attach to your request a copy of the will and relevant documents, a statement showing the distribution of the estate under the decedent's will, and a computation of the state or foreign death tax showing the amount payable by charity.

Mortgages and Liens.—List under "Mortgages and Liens" only obligations secured by mortgages or other liens on property that you included in the gross estate at its full value or at a value that was undiminished by the amount of the mortgage or lien. If the debt is enforceable against other property of the estate not subject to the mortgage or lien, or if the decedent was personally liable for the debt, you must include the full value of the property subject to the mortgage or lien in the gross estate under the appropriate schedule, and may deduct the mortgage or lien on the property on this schedule. However, if the decedent's estate is not liable, include in the gross estate only the value of the equity of redemption (or the value of the property less the amount of the debt), and do not deduct any portion of the indebtedness on this schedule.

Notes and other obligations secured by the deposit of collateral, such as stocks, bonds, etc., also should be listed under "Mortgages and Liens."

Description.—Include under the "Description" column the particular schedule and item number where the

property subject to the mortgage or lien is reported under the gross estate.

Include the name and address of the mortgagee, payee, or obligee, and the date and term of the mortgage, note, or other agreement by which the debt was established. Also include the face amount, the unpaid balance, the rate of interest, and date to which the interest was paid before the decedent's death.

Instructions for Schedule L.—Net Losses During Administration and Expenses Incurred in Administering Property Not Subject to Claims

General.—You must complete Schedule L and file it with the return if you claim deductions on either item 16 or item 17 of Part 5, Recapitulation.

Net Losses During Administration.—You may deduct only those losses from thefts, fires, storms, shipwrecks or other casualties that occurred during the settlement of the estate. You may deduct only the amount not reimbursed by insurance or otherwise.

Describe in detail the loss sustained and the cause. If you received insurance or other compensation for the loss, state the amount collected. Identify the property for which you are claiming the loss by indicating the particular schedule and item number where the property is included in the gross estate.

If you elect alternate valuation, do not deduct the amount by which you reduced the value of an item to include it in the gross estate.

Do not deduct losses claimed as a deduction on a Federal income tax return or depreciation in the value of securities or other property.

Expenses Incurred in Administering Property Not Subject to Claims.—You may deduct expenses incurred in administering property that is included in the gross estate but that is not subject to claims. You may only deduct these expenses if they were paid before the section 6501 period of limitations for assessment expired.

The expenses deductible on the schedule are usually expenses incurred in the administration of a trust established by the decedent before death. They may also be incurred in the collection of other assets or the transfer or clearance of title to other property included in the decedent's gross estate for estate tax purposes, but not included in the decedent's probate estate. The expenses deductible on this schedule are limited to those that are the result of settling the decedent's interest in the property or of vesting good title to the property in the beneficiaries. Expenses incurred on behalf of the transferees (except those described above) are not deductible. Examples of deductible and nondeductible expenses are provided in Regulations section 20.2053-8.

List the names and addresses of the persons to whom each expense was payable and the nature of the expense. Identify the property for which the expense was incurred by indicating the schedule and item number where the property is included in the gross estate. If you do not know the exact amount of the expense, you may deduct an estimate, provided that the amount may be verified with reasonable certainty and will be paid before the period of limitations for assessment (referred to above) expires. Keep all vouchers and receipts for inspection by the Internal Revenue Service.

Instructions for Schedule M.—Bequests, etc., to Surviving Spouse (Marital Deduction)

General.—You must complete Schedule M and file it with the return if you claim a deduction on item 18 of Part 5, Recapitulation.

The marital deduction is authorized by section 2056 for certain property interests that pass from the decedent to the surviving spouse. You may claim the deduction only for property interests that are included in the decedent's gross estate (Schedules A through I).

Note: *The marital deduction is generally not allowed if the surviving spouse is* ***not*** *a U.S. citizen. The marital deduction is allowed for property passing to such a surviving spouse in a "qualified domestic trust" or if such property is transferred or irrevocably assigned to such a trust before the estate tax return is filed. The executor must elect qualified domestic trust status on this return. See the instructions for line 4 on the following page for details on the election.*

Line 1.—If property passes to the surviving spouse as the result of a qualified disclaimer, check "Yes" and attach a copy of the written disclaimer required by section 2518(b).

Property interests that may be listed on Schedule M.—Generally, you may list on Schedule M, Part 1, all property interests that pass from the decedent to the surviving spouse and are included in the gross estate. You should not list any "Nondeductible terminable interests" (described below) on Part 1 of Schedule M. Note that you may elect to deduct an otherwise nondeductible terminable interest by making a QTIP election. The property for which you made this election must be included on Part 2 of Schedule M. See "Qualified Terminable Interest Property," below.

For the rules on common disaster and survival for a limited period provisions, see section 2056(b)(3).

You may list on Schedule M only those interests that the surviving spouse takes:

1. As the decedent's legatee, devisee, heir, or donee;
2. As the decedent's surviving tenant by the entirety or joint tenant;
3. As an appointee under the decedent's exercise of a power or as a taker in default at the decedent's nonexercise of a power;
4. As a beneficiary of insurance on the decedent's life;
5. As the surviving spouse taking under dower or curtesy (or similar statutory interest); and
6. As a transferee of a transfer made by the decedent at any time.

Property interests that should not be listed on Part 1 or Part 2 of Schedule M.—You should not list on Schedule M:

(a) The value of any property that does not pass from the decedent to the surviving spouse.

(b) Property interests that are not included in the decedent's gross estate.

(c) The full value of a property interest for which a deduction was claimed on Schedules J through L. The value of the property interest should be reduced by the deductions claimed with respect to it.

(d) The full value of a property interest that passes to the surviving spouse subject to a mortgage or other encumbrance or an obligation of the surviving spouse. Include on Schedule M only the net value of the interest after reducing it by the amount of the mortgage or other debt.

(e) Nondeductible terminable interests (described below).

(f) Any property interest disclaimed by the surviving spouse.

Terminable interests.—Certain interests in property passing from a decedent to a surviving spouse are referred to as *terminable interests*. These are interests that will terminate or fail after the passage of time, or on the occurrence or nonoccurrence of some contingency. Examples are: life estates, annuities, estates for terms of years, and patents.

The ownership of a bond, note, or other contractual obligation, which when discharged would not have the effect of an annuity for life or for a term, is not considered a terminable interest.

Nondeductible terminable interests.—A terminable interest is *nondeductible*, and should not be entered on Schedule M (unless a valid QTIP election is made) if:

1. Another interest in the same property passed from the decedent to some other person for less than adequate and full consideration in money or money's worth; and
2. By reason of its passing, the other person or that person's heirs may enjoy part of the property after the termination of the surviving spouse's interest.

This rule applies even though the interest that passes from the decedent to a person other than the surviving spouse is not included in the gross estate, and regardless of when the interest passes. The rule also applies regardless of whether the surviving spouse's interest and the other person's interest pass from the decedent at the same time. Property interests that are considered to pass to a person other than the surviving spouse are any property interest that: (1) passes under a decedent's will or intestacy; (2) was transferred by a decedent during life; or (3) is held by or passed on to any person as a decedent's joint tenant, as appointee under a decedent's exercise of a power, as taker in default at a decedent's release or nonexercise of a power, or as a beneficiary of insurance in the decedent's life.

For example, a decedent devised real property to his wife for life, with remainder to his children. The life interest that passed to the wife does not qualify for the marital deduction since it will terminate at her death and the children will thereafter possess or enjoy the property.

However, if the decedent purchased a joint and survivor annuity for himself and his wife who survived him, the value of the survivor's annuity, to the extent that it is

included in the gross estate, qualifies for the marital deduction because even though the interest will terminate on the wife's death, no one else will possess or enjoy any part of the property.

The marital deduction is not allowed for an interest which the decedent directed the executor or a trustee to convert, after death, into a terminable interest for the surviving spouse. The marital deduction is not allowed for such an interest even if there was no interest in the property passing to another person and even if the terminable interest would otherwise have been deductible under the exceptions described below for life estate and life insurance and annuity payments with powers of appointment. For more information, see Regulations sections 20.2056(b)–1(f) and 20.2056(b)–1(g), Example (7).

If any property interest passing from the decedent to the surviving spouse may be paid or otherwise satisfied out of any of a group of assets, the value of the property interest is, for the entry on Schedule M, reduced by the value of any asset or assets that, if passing from the decedent to the surviving spouse, would be nondeductible terminable interests. Examples of property interests that may be paid or otherwise satisfied out of any of a group of assests are a bequest of the residue of the decedent's estate, or of a share of the residue, and a cash legacy payable out of the general estate.

Example: A decedent bequeathed $100,000 to the surviving spouse. The general estate includes a term for years (valued at $10,000 in determining the value of the gross estate) in an office building, which interest was retained by the decedent under a deed of the building by gift to a son. Accordingly, the value of the specific bequest entered on Schedule M is $90,000.

Life Estate With Power of Appointment in the Surviving Spouse.—A property interest, whether or not in trust, will be treated as passing to the surviving spouse, and will not be treated as a nondeductible terminable interest if: (a) the surviving spouse is entitled for life to all of the income from the entire interest; (b) the income is payable annually or at more frequent intervals; (c) the surviving spouse has the power, exercisable in favor of the surviving spouse or the estate of the surviving spouse, to appoint the entire interest; (d) the power is exercisable by the surviving spouse alone and (whether exercisable by will or during life) is exercisable by the surviving spouse in all events; and (e) no part of the entire interest is subject to a power in any other person to appoint any part to any person other than the surviving spouse (or the surviving spouse's legal representative or relative if the surviving spouse is disabled. See Rev. Rul. 85-35 1985-1 C.B. 328). If these five conditions are satisfied only for a specific portion of the entire interest, see the section 2056(b) regulations for the determination of the part that qualifies for the marital deduction.

Life Insurance, Endowment, or Annuity Payments, With Power of Appointment in Surviving Spouse.—A property interest consisting of the entire proceeds under a life insurance, endowment, or annuity contract is treated as passing from the decedent to the surviving spouse, and will not be treated as a nondeductible terminable interest if: (a) the surviving spouse is entitled to receive the proceeds in installments, or is entitled to interest thereon, with all amounts payable during the life of the spouse, payable only to the surviving spouse; (b) the installment or interest payments are payable annually, or more frequently, beginning not later than 13 months after the decedent's death; (c) the surviving spouse has the power, exercisable in favor of the surviving spouse or of the estate of the surviving spouse, to appoint all amounts payable under the contract; (d) the power is exercisable by the surviving spouse alone and (whether exercisable by will or during life) is exercisable by the surviving spouse in all events; and (e) no part of the amount payable under the contract is subject to a power in any other person to appoint any part to any person other than the surviving spouse. If these five conditions are satisfied only for a specific portion of the proceeds, see the section 2056(b) regulations for the determination of the part that qualifies for the marital deduction.

Charitable Remainder Trusts.—An interest in a charitable remainder trust will **not** be treated as a nondeductible terminable interest if:

(1) The interest in the trust passes from the decedent to the surviving spouse; and

(2) The surviving spouse is the only beneficiary of the trust other than charitable organizations described in section 170(c).

A "charitable remainder trust" is a charitable remainder annuity trust or a charitable remainder unitrust. (See section 664 for descriptions of these trusts.)

Election To Deduct Qualified Terminable Interests(QTIP).—You may elect to claim a marital deduction for qualified terminable interest property or property interests. If this election is made, the surviving spouse's gross estate will include the value of the "qualified terminable interest property." See the instructions for line 6 of General Information for more details. **The election is irrevocable.** If you file a Form 706 in which you do not make this election, you may not file an amended return to make the election unless you file the amended return on or before the due date for filing the original Form 706. The effect of the election is that the property (interest) will be treated as passing to the surviving spouse and will not be treated as a nondeductible terminable interest. All of the other marital deduction requirements must still be satisfied before you may make this election. For example, you may not make this election for property or property interests that are not included in the decedent's gross estate.

Qualified Terminable Interest Property is property:

(1) that passes from the decedent; and

(2) in which the surviving spouse has a qualifying income interest for life.

The surviving spouse has a *qualifying income interest for life* if the surviving spouse is entitled to all of the income from the property payable annually or at more frequent intervals, or has a usufruct interest for life in the property, and during the surviving spouse's lifetime no person has a power to appoint any part of the property to any person other than the surviving spouse. An annuity is treated as an income interest regardless of whether the property from which the annuity is payable can be separately identified.

The QTIP election may be made for all or any part of a qualified terminable interest property. A partial election must relate to a fractional or percentile share of the property so that the elective part will reflect its proportionate share of the increase or decline in the whole of the property for purposes of applying sections 2044 or 2519. Thus, if the interest of the surviving spouse in a trust (or other property in which the spouse has a qualified life estate) is qualified terminable interest property, you may make an election with respect to a part of the trust (or other property) only if the election relates to a defined fraction or percentage of the entire trust (or other property). The fraction or percentage may be defined by means of a formula.

In order to claim this election, you must list the property interests for which you made the election on Part 2.

Line 3.—Qualified Domestic Trust Election.—The marital deduction is allowed for transfers to a surviving spouse who is not a U.S. citizen only if the property passes to the surviving spouse in a "qualified domestic trust" (QDT) or if such property is transferred or irrevocably assigned to a QDT before the decedent's estate tax return is filed.

A QDT is any trust:

1. That requires at least one trustee to be either an individual who is a citizen of the U.S. or a domestic corporation;

2. That requires that no distribution from the trust can be made without the approval of such a trustee;

3. That meets the requirements of any applicable regulations; and

4. For which the executor has made an election on the estate tax return of the decedent.

To make the election, you must answer "Yes" to the question on line 3. Once made, the election is irrevocable.

When listing property on Schedule M, identify that property for which the QDT election has been made. Include the employer identification number for each trust and the names and addresses of all trustees.

The determination of whether a trust qualifies as a QDT will be made as of the date the decedent's Form 706 is filed. If, however, judicial proceedings are brought prior to the due date (including extensions) to have the trust revised to meet the QDT requirements, then the determination will not be made until the court ordered changes to the trust are made.

Line 4.—Section 2056(b)(7) creates an automatic QTIP election for certain joint and survivor annuities which are includible in the estate under section 2039. To qualify, only the surviving spouse can have the right to receive payments before the death of the surviving spouse.

The executor can elect out of QTIP treatment, however, by checking the "Yes" box on line 4. Once made, the election is irrevocable. If there is more than one such

joint and survivor annuity, you are not required to make the election for all of them.

If you do not make the election out by checking "Yes" on line 4, you must list the joint and survivor annuities in Part 2 of Schedule M.

How To Complete Schedule M.—Schedule M is divided into three parts. If you do not make a QTIP election, complete only Parts 1 and 3.

If you make a QTIP election, complete all three parts. You must divide the property interests between those subject to the QTIP election (entered on Part 2) and those not subject to the QTIP election (entered on Part 1). **Do not enter the same property interest on both Parts 1 and 2.**

How To Complete Parts 1 and 2.—List each property interest included in the gross estate which passes from the decedent to the surviving spouse and for which a marital deduction is claimed. Number each item in sequence and describe each item in detail. Describe the instrument (including any clause or paragraph number) or provision of law under which each item passed to the surviving spouse. If possible, show where each item appears (number and schedule) on Schedules A through I.

Enter the value of each interest before taking into account the Federal estate tax or any other death tax. The valuation dates used in determining the value of the gross estate apply also on Schedule M.

If Schedule M includes a bequest of the residue or a part of the residue of the decedent's estate, attach a copy of the computation showing how the value of the residue was determined. Include a statement showing:

- The value of all property which is included in the decedent's gross estate (Schedules A through I) but is not a part of the decedent's probate estate, such as lifetime transfers, jointly owned property which passed to the survivor on decedent's death, and the insurance payable to specific beneficiaries.
- The values of all specific and general legacies or devises, with reference to the applicable clause or paragraph of the decedent's will or codicil. (If legacies are made to each member of a class, for example, $1,000 to each of decedent's employees, only the number in each class and the total value of property received by them need be furnished.)
- The date of birth of all persons, the length of whose lives may affect the value of the residuary interest passing to the surviving spouse.
- Any other important information such as that relating to any claim to any part of the estate not arising under the will.

How To Complete Part 3.—The total of the values listed on Parts 1 and 2 must be reduced by the amount of the Federal estate tax, the Federal GST tax, and the amount of state or other death and GST taxes paid out of the property interest involved. If you enter an amount for state or other death or GST taxes on lines 3b or 3c, identify the taxes and attach your computation of them. For additional information, see **Pub. 904,** Interrelated Computations for Estate and Gift Taxes.

Attachments.—If you list property interests passing by the decedent's will on Schedule M, attach a certified copy of the order admitting the will to probate. If, when you file the return, the court of probate jurisdiction has entered any decree interpreting the will or any of its provisions affecting any of the interests listed on Schedule M, or has entered any order of distribution, attach a copy of the decree or order. In addition, the district director may request other evidence to support the marital deduction claimed.

Instructions for Schedule O.—Charitable, Public, and Similar Gifts and Bequests

General.— You must complete Schedule O and file it with the return if you claim a deduction on item 19 of the Recapitulation.

You can claim the charitable deduction allowed under section 2055 for the value of property in the decedent's estate that was transferred by the decedent during life or by will to a charitable institution as explained in Pub. 448.

The deduction is limited to the amount actually available for charitable uses. Therefore, if under the terms of a will or the provisions of local law, or for any other reason, the Federal estate tax, the Federal GST tax, or any other estate, GST, succession, legacy, or inheritance tax is payable in whole or in part out of any bequest, legacy, or devise that would otherwise be allowed as a charitable deduction, the amount you may deduct is the amount of the bequest, legacy, or devise reduced by the total amount of the taxes.

For split-interest trusts (or pooled income funds) enter in the "Amount" column the amount treated as passing to the charity. Do not enter the entire amount that passes to the trust (fund).

If you are deducting the value of the residue or a part of the residue passing to charity under the decedent's will, attach a copy of the computation showing how you determined the value, including any reduction for the taxes described above. Also include:

1. A statement that shows the values of all specific and general legacies or devises whether they are for charitable or noncharitable uses. For each legacy or devise, indicate the paragraph or section of the decedent's will or codicil that applies. (If legacies are made to each member of a class (for example, $1,000 to each of the decedent's employees), show only the number of each class and the total value of property they received.)
2. The date of birth of all life tenants or annuitants, the length of whose lives may affect the value of the interest passing to charity under the decedent's will.
3. A statement showing the value of all property which is included in the decedent's gross estate but does not pass under the will, such as transfers, jointly owned property which passed to the survivor on decedent's death, and insurance payable to specific beneficiaries.
4. Any other important information such as that relating to any claim, not arising under the will, to any part of the estate (for example, a spouse claiming dower or curtesy, or similar rights).

Line 2.—The charitable deduction is allowed for amounts that are transferred to charitable organizations as a result of a qualified disclaimer. To be a qualified disclaimer, a refusal to accept an interest in property must meet the conditions of section 2518. These are explained in Pub. 448 and Regulations sections 25.2518-1 through 25.2518-3. If property passes to a charitable beneficiary as the result of a qualified disclaimer, check the "Yes" box on line 2 and attach a copy of the written disclaimer required by section 2518(b).

Attachments.—If the charitable transfer was made by will, attach a certified copy of the order admitting the will to probate, in addition to the copy of the will. If the charitable transfer was made by any other written instrument, attach a copy. If the instrument is of record, the copy should be certified; if not, the copy should be verified.

Instructions for Schedule P.—Credit for Foreign Death Taxes

General.—If you claim a credit on line 18 of Part 2, Tax Computation, you must complete Schedule P and file it with the return. **You must attach Form(s) 706CE, Certificate of Payment of Foreign Death Tax, to support any credit you claim.**

The credit for foreign death taxes is allowable only if the decedent was a citizen or resident of the United States. However, see section 2053(d) and the related regulations for exceptions and limitations if the executor has elected, in certain cases, to deduct these taxes from the value of the gross estate. For a resident, not a citizen, who was a citizen or subject of a foreign

Examples of Listing of Property Interests on Schedule M, Part 1

Item number	Description of property interests passing to surviving spouse	Value
1	One-half the value of a house and lot, 256 South West Street, held by decedent and surviving spouse as joint tenants with right of survivorship under deed dated July 15, 1937 (Schedule E, Part I, item 1)	32,500
2	Proceeds of Gibraltar Life Insurance Company policy No. 104729, payable in one sum to surviving spouse (Schedule D, item 3)	20,000
3	Cash bequest under Paragraph Six of will	100,000

country for which the President has issued a proclamation under section 2014(h), the credit is allowable only if the country of which the decedent was a national allows a similar credit to decedents who were citizens of the United States resident in that country.

The credit is authorized either by statute or by treaty. If a credit is authorized by a treaty, there is allowable whichever of the following is the most beneficial to the estate: (1) the credit computed under the treaty; (2) the credit computed under the statute; or (3) the credit computed under the treaty, plus the credit computed under the statute for death taxes paid to each political subdivision or possession of the treaty country which are not directly or indirectly creditable under the treaty. Under the statute, the credit is authorized for all death taxes (national and local) imposed in the foreign country. Whether local taxes are the basis for a credit under a treaty depends upon the provisions of the particular treaty.

If a credit for death taxes paid in more than one foreign country is allowable, a separate computation of the credit must be made for each foreign country. The copies of Schedule P on which the additional computations are made should be attached to the copy of Schedule P provided in the return.

The total credit allowable in respect to any property, whether subjected to tax by one or more than one foreign country, is limited to the amount of the Federal estate tax attributable to the property. The anticipated amount of the credit may be computed on the return, but the credit cannot finally be allowed until the foreign tax has been paid and a Form 706CE evidencing payment is filed. Section 2014(g) provides that for credits for foreign death taxes, each possession of the United States is deemed a foreign country.

If a credit is claimed for any foreign death tax which is later recovered, see Regulations section 20.2016-1 for the notice required within 30 days.

Credit Under the Statute.—For the credit allowed by the statute, the question of whether particular property is situated in the foreign country imposing the tax is determined by the same principles that would apply in determining whether similar property of a nonresident not a citizen of the United States is situated within the United States for purposes of the Federal estate tax. See the instructions for Form 706NA.

Computation of Credit Under the Statute.—

Item 1.—Enter the amount of the estate, inheritance, legacy, and succession taxes paid to the foreign country and its possessions or political subdivisions, attributable to property that is (a) situated in that country, (b) subjected to these taxes, and (c) included in the gross estate. The amount entered at item 1 should not include any tax paid to the foreign country with respect to property not situated in that country and should not include any tax paid to the foreign country with respect to property not included in the gross estate. If only a part of the property subjected to foreign taxes is both situated in the foreign country and included in the gross estate, it will be necessary to determine the portion of the taxes attributable to that part of the property. Also attach the computation of the amount entered at item 1.

Item 2.—Enter the value of the gross estate less the total of the deductions on items 18 and 19 of Part 5, Recapitulation.

Item 3.—Enter the value of the property situated in the foreign country that is subjected to the foreign taxes and included in the gross estate, less those portions of the deductions taken on Schedules M and O that are attributable to the property.

Item 4.—Subtract line 17, Part 2, Form 706 from line 16, Part 2, Form 706, and enter the balance at item 4 of Schedule P.

Credit Under Treaties.—

If you are reporting any items on this return based on the provisions of a death tax treaty, you may have to attach a statement to this return disclosing the return position that is treaty based. See Regulations section 301.6114-1 for details.

(a) In General.—If the provisions of a treaty apply to the estate of a citizen or resident of the United States, a credit is authorized for payment of the foreign death tax or taxes specified in the treaty. Death tax conventions are in effect with the following countries: Australia, Austria, Denmark, Federal Republic of Germany, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, Norway, Republic of South Africa, Sweden, Switzerland, and United Kingdom.

A credit claimed under a treaty is in general computed on Schedule P in the same manner as the credit is computed under the statute with the following principal exceptions: (1) The situs rules contained in the treaty apply in determining whether property was situated in the foreign country; (2) the credit may be allowed only for payment of the death tax or taxes specified in the treaty (but see the instructions above for credit under the statute for death taxes paid to each political subdivision or possession of the treaty country that are not directly or indirectly creditable under the treaty); (3) if specifically provided, the credit is proportionately shared for the tax applicable to property situated outside both countries, or that was deemed in some instances situated within both countries; and (4) the amount entered at item 4 of Schedule P is the amount shown on line 15 of Part 2, Tax Computation, less the total of the amounts on lines 17 and 19 of the Tax Computation. (If a credit is claimed for tax on prior transfers, it will be necessary to complete Schedule Q before completing Schedule P.) For examples of computation of credits under the treaties, see the applicable regulations.

(b) Computation of Credit in Cases Where Property Is Situated Outside Both Countries or Deemed Situated Within Both Countries.—See the appropriate treaty for details.

Instructions for Schedule Q.—Credit for Tax on Prior Transfers

General.—You must complete Schedule Q and file it with the return if you claim a credit on line 19 of Part 2, Tax Computation.

The term "transferee" means the decedent for whose estate this return is filed. If the transferee received property from a transferor who died within 10 years before, or 2 years after, the transferee, a credit is allowable on this return for all or part of the Federal estate tax paid by the transferor's estate with respect to the transfer. There is no requirement that the property be identified in the estate of the transferee or that it be in existence on the date of the transferee's death. It is sufficient for the allowance of the credit that the transfer of the property was subjected to Federal estate tax in the estate of the transferor and that the specified period of time has not elapsed. A credit may be allowed with respect to property received as the result of the exercise or nonexercise of a power of appointment when the property is included in the gross estate of the donee of the power.

If the transferee was the transferor's surviving spouse, no credit is allowed for property received from the transferor to the extent that a marital deduction was allowed to the transferor's estate for the property. There is no credit for tax on prior transfers for Federal gift taxes paid in connection with the transfer of the property to the transferee.

If you are claiming a credit for tax on prior transfers on Form 706NA, you should first complete and attach the Recapitulation from Form 706 before computing the credit on Schedule Q from Form 706.

Section 2056(d)(3) contains specific rules for allowing a credit for certain transfers to a spouse who was not a U.S. citizen where the property passed outright to the spouse, or to a "qualified domestic trust."

Property.—The term "property" includes any interest (legal or equitable) of which the transferee received the beneficial ownership. The transferee is considered to be the beneficial owner of property over which the transferee received a general power of appointment. It does not include interests to which the transferee received only a bare legal title, such as that of a trustee. Neither does it include an interest in property over which the transferee received a power of appointment that is not a general power of appointment. In addition to interests in which the transferee received the complete ownership, the credit may be allowed for annuities, life estates, terms for years, remainder interests (whether contingent or vested), and any other interest that is less than the complete ownership of the property, to the extent that the transferee became the beneficial owner of the interest.

Maximum Amount of the Credit.—The maximum amount of the credit is the smaller of:

(a) the amount of the estate tax of the transferor's estate attributable to the transferred property, or

(b) the amount by which (A) an estate tax on the transferee's estate determined without the credit for tax on prior transfers, exceeds (B) an estate tax on the transferee's estate determined by excluding from the gross estate the net value of the transfer. If credit for a particular foreign death tax may be taken under either the statute or a death duty convention, and on this return the credit actually is taken under the convention, then no credit for that

foreign death tax may be taken into consideration in computing estate tax "(A)" or estate tax "(B)."

Percent Allowable.—

(a) *Where Transferee Predeceased the Transferor.*—If not more than 2 years elapsed between the dates of death, the credit allowed is 100% of the maximum amount. If more than 2 years elapsed between the dates of death, no credit is allowed.

(b) *Where Transferor Predeceased the Transferee.*—The percent of the maximum amount that is allowed as a credit depends on the number of years that elapsed between dates of death. It is determined using the following table:

Period of Time Exceeding	Not Exceeding	Percent Allowable
———	2 years	100
2 years	4 years	80
4 years	6 years	60
6 years	8 years	40
8 years	10 years	20
10 years	———	none

How To Compute the Credit.—A worksheet is provided on the last page of these instructions to allow you to compute the limits before completing Schedule Q. Transfer the appropriate amounts from the worksheet to Schedule Q as indicated on the Schedule. You do not need to file the worksheet with your Form 706, but should retain it for your records.

Cases Involving Transfers From Two or More Transferors.—Part I of the worksheet and Schedule Q enable you to compute the credit for as many as three transferors. The number of transferors is irrelevant to Part II of the worksheet. If you are computing the credit for more than three transferors, use more than one worksheet and Schedule Q, Part I and combine the totals for the appropriate lines.

Section 2032A Additional Tax.—If the *transferor's* estate elected special use valuation and the additional estate tax of section 2032A(c) was imposed at any time up to 2 years after the death of the *decedent for whom you are filing this return,* you should check the box on Schedule Q. On lines 1 and 9 of the worksheet, you should include the property subject to the additional estate tax at its fair market value rather than its special use value. On line 10 of the worksheet, include the additional estate tax paid as a Federal estate tax paid.

How To Complete the Worksheet.—Most of the information to complete Part I of the worksheet should be obtained from the transferor's Form 706.

Line 5.—Enter on line 5 the applicable marital deduction claimed for the transferor's estate (from the transferor's Form 706).

Line 9.—If the transferor died before January 1, 1977, compute the "Transferor's taxable estate" by adding back the $60,000 exemption to the taxable estate shown on the transferor's estate tax return.

Lines 10-18.—Enter on these lines the appropriate taxes paid by the transferor's estate.

If the transferor's estate elected to pay the Federal estate tax in installments, enter on line 10 only the total of the installments that have actually been paid at the time you file this Form 706. See Rev. Rul. 83-15, 1983-1 C.B. 224, for more details. Do not include as estate tax any tax attributable to section 4980A.

Line 21.—Add lines 13, 15, 17, and 18 of Part 2, Tax Computation, of this Form 706 and subtract this total from line 10 of the Tax Computation. Enter the result on line 21 of the worksheet.

Line 26.—If you computed the marital deduction on this Form 706 using the rules that were in effect before the Economic Recovery Tax Act of 1981 (as described in the instructions to line 14 of Part 4 of General Information), you should enter on line 26 the lesser of: the marital deduction you claimed on line 18 of Part 5 of the Recapitulation; or 50% of the "reduced adjusted gross estate." If you computed the marital deduction using the unlimited marital deduction in effect for decedents dying after 1981, for purposes of determining the marital deduction for the reduced gross estate see Rev. Rul. 90-2, 1990-4 I.R.B. 12. To determine the "reduced adjusted gross estate," subtract the amount on line 25 of the Schedule Q worksheet from the amount on line 24 of the worksheet. If community property is included in the amount on line 24 of the worksheet, you should compute the reduced adjusted gross estate using the rules of Regulations section 20.2056(c)-2 and Rev. Rul. 76-311, 1976-2 C.B. 261.

Instructions for Schedules R and R-1.—Generation-Skipping Transfer Tax

Introduction and Overview.—

Schedule R is used to compute the generation-skipping transfer (GST) tax that is payable by the estate. Schedule R-1 (Form 706) is used to compute the GST tax that is payable by certain trusts that are includible in the gross estate.

The GST tax that is to be reported on Form 706 is imposed only on "direct skips occurring at death." Unlike the estate tax, which is imposed on the value of the entire taxable estate regardless of whom it is distributed to, the GST tax is imposed only on the value of property interests that actually pass to certain transferees, who are referred to as "skip persons."

For purposes of Form 706, the property interests transferred must be includible in the gross estate before they are subject to the GST tax. Therefore, the first step in computing the GST tax liability is to determine the property interests includible in the gross estate by completing Schedules A-I of Form 706.

The second step is to determine who the "skip persons" are. To do this, assign each transferee to a generation and determine whether each transferee is a "natural person" or a "trust" for GST purposes.

The third step is to determine which skip persons are transferees of "interests in property." If the skip person is a "natural person," anything transferred is an "interest in property." If the skip person is a "trust," make this determination using the rules under "Interest in Property," below.

These first three steps are described in detail under the heading "Determining Which Transfers Are Direct Skips."

The fourth step is to determine whether to enter the transfer on Schedule R or on Schedule R-1. See the rules under the heading "Dividing Direct Skips Between Schedules R and R-1."

The fifth step is to complete Schedules R and R-1 using the "How To Complete" instructions below, for each schedule.

Determining Which Transfers Are Direct Skips

Effective Dates.—The rules below apply **only** for purposes of determining if a transfer is a direct skip that should be reported on Schedule R or R-1 of Form 706.

In General.—The GST tax is effective for the estates of decedents dying after October 22, 1986.

Wills and revocable trusts.—For the estates of decedents dying before January 1, 1987, the GST tax will not apply to transfers under wills and revocable trusts executed before October 22, 1986.

Irrevocable Trusts.—The GST tax will not apply to any transfer under a trust which was irrevocable on September 25, 1985, but only to the extent that the transfer was not made out of corpus added to the trust after September 25, 1985. An addition to the corpus after that date will cause a proportionate part of future income and appreciation to be subject to the GST tax. For more information, see Temporary Regulations section 26.2601-1(b)(1)(ii).

Mental disability.—If the decedent was, on October 22, 1986, under a mental disability to change the disposition of his or her property and did not regain the competence to dispose of property before death, the GST tax will not apply to any property included in the gross estate (other than property transferred on behalf of the decedent during life and after October 21, 1986). The GST tax will also not apply to any transfer under a trust to the extent that the trust consists of property included in the gross estate (other than property transferred on behalf of the decedent during life and after October 21, 1986).

The term "mental disability" means the decedent's mental incompetence to execute an instrument governing the disposition of his or her property, whether or not there has been an adjudication of incompetence and whether or not there has been an appointment of any other person charged with the care of the person or property of the transferor.

If the decedent had been adjudged mentally incompetent, a copy of the judgment or decree must be filed with this return.

If the decedent had not been adjudged mentally incompetent, the executor must file with the return a certification from a qualified physician stating that in his opinion the decedent had been mentally incompetent at all times on and after October 22, 1986, and that the decedent had not regained the competence to modify or revoke the terms of the trust or will prior to his death or a statement as to why no such certification may be obtained from a physician.

Direct Skip.—The GST tax to be reported on Form 706 and Schedule R-1 (Form 706) is imposed only on direct skips. For purposes of Form 706, a direct skip is a transfer that is: (1) subject to the estate tax, (2) of an interest in property, and (3) to a skip person. All three requirements must be met before the transfer is subject to the GST tax. A transfer is "subject to the estate tax" if you are required to list it on any of Schedules A-I of Form 706. To determine if a transfer is of an "interest in property" and to a "skip person" you must first determine if the transferee is a "natural person" or a "trust" as defined below.

Trust.—For purposes of the GST tax, a "trust" includes not only an explicit trust (as defined in Special Rule for Trusts Other than Explicit Trusts, below), but also any other arrangement (other than an estate) which although not explicitly a trust, has substantially the same effect as a trust. For example, "trust" includes life estates with remainders, terms for years, and insurance and annuity contracts.

Substantially separate and independent shares of different beneficiaries in a trust are treated as separate trusts.

Interest in Property.—If a transfer is made to a "natural person," it is always considered a transfer of an interest in property for purposes of the GST tax.

If a transfer is made to a "trust," a person will have an interest in the property transferred to the trust if that person either has a present right to receive income or corpus from the trust (such as an income interest for life) or is a permissible current recipient of income or corpus from the trust (e.g., may receive income or corpus at the discretion of the trustee).

Skip Person.—A transferee who is a "natural person" is a "skip person" if that transferee is assigned to a generation which is two or more generations below the generation assignment of the decedent. See "Determining the Generation of a Transferee," below.

A transferee who is a "trust" is a "skip person" if all the "interests in the property" (as defined above) transferred to the trust are held by skip persons. Thus, whenever a non-skip person has an interest in a trust, the trust will not be a skip person even though a skip person also has an interest in the trust.

A trust will also be a "skip person" if there are no "interests in the property" transferred to the trust held by any person, and future distributions or terminations from the trust can be made only to skip persons.

Non-Skip Person.—A non-skip person is any transferee who is not a skip person.

Determining the Generation of a Transferee.—Generally, a generation is determined along family lines as follows:

(1) A lineal descendant of a grandparent of the decedent is assigned to the generation that results from comparing the number of generations between the grandparent and the lineal descendant with the number of generations between the grandparent and the decedent.

(2) A lineal descendant of a grandparent of a spouse of the decedent is assigned to the generation that results from comparing the number of generations between the grandparent and the descendant with the number of generations between the spouse and the grandparent.

(3) A person who at any time was married to a person described in (1) or (2) above is assigned to the generation of that person. A person who at any time was married to the decedent is assigned to the decedent's generation.

(4) A relationship by adoption or half-blood is treated as a relationship by whole-blood.

(5) A person who is not assigned to a generation according to (1), (2), (3), or (4) above is assigned to a generation based on his or her birth date, as follows:

(a) A person who was born not more than 12½ years after the decedent is in the decedent's generation.

(b) A person born more than 12½ years, but not more than 37½ years, after the decedent is in the first generation younger than the decedent.

(c) A similar rule applies for a new generation every 25 years.

If more than one of the rules for assigning generations applies to a transferee, that transferee is generally assigned to the youngest of the generations that would apply.

If an estate, trust, partnership, corporation, or other entity (other than certain charitable organizations and trusts described in sections 511(a)(2) and 511(b)(2)) is a transferee, then each person who indirectly receives the property interests through the entity is treated as a transferee and is assigned to a generation as explained in the above rules. However, this look-thru rule does not apply for the purpose of determining whether a transfer to a trust is a direct skip.

Generation Assignment Where Intervening Parent Is Dead.—If property is transferred to the decedent's grandchild and at the date of death, the grandchild's parent (who is the decedent's or the decedent's spouse's or the decedent's former spouse's child) is dead, then for purposes of generation assignment the grandchild will be considered to be the decedent's child rather than the decedent's grandchild. Thus, the transfer of the property will not be a direct skip. The grandchild's children will be treated as the decedent's grandchildren rather than the decedent's great-grandchildren.

This rule is also applied to the decedent's lineal descendants below the level of grandchild. For example, if the decedent's grandchild is dead, the decedent's great-grandchildren who are lineal descendants of the dead grandchild are considered the decedent's grandchildren for purposes of the GST tax.

If any transfer of property to a trust would have been a direct skip except for this generation assignment rule, then the rule also applies to transfers from the trust attributable to such property.

Charitable Organizations.—Charitable organizations and trusts described in sections 511(a)(2) and 511(b)(2) are assigned to the decedent's generation. Transfers to such organizations are therefore not subject to the GST tax.

Charitable Remainder Trusts.—Transfers to or in the form of charitable remainder annuity trusts, charitable remainder unitrusts, and pooled income funds are not considered made to skip persons and, therefore, are not direct skips even if all of the life beneficiaries are skip persons.

Estate Tax Value.—Estate tax value is the value shown on Schedules A–I of this Form 706.

Examples.—The rules above can be illustrated by the following examples:

Example 1.—Under the will, the decedent's house is transferred to the decedent's daughter for her life with the remainder passing to her children. This transfer is made to a "trust" even though there is no explicit trust instrument. The interest in the property transferred (the present right to use the house) is transferred to a nonskip person (the decedent's daughter). Therefore, the trust is not a skip person because there is an interest in the transferred property that is held by a nonskip person. The transfer is not a direct skip.

Example 2.—The will bequeaths $100,000 to the decedent's grandchild. This transfer is a direct skip that is not made in trust and should be shown on Schedule R.

Example 3.—The will establishes a trust that is required to accumulate income for 10 years and then pay its income to the decedent's grandchildren for the rest of their lives and, upon their deaths, distribute the corpus to the decedent's great-grandchildren. Since the trust has no current beneficiaries, there are no present interests in the property transferred to the trust. All of the persons to whom the trust can make future distributions (including distributions upon the termination of interests in property held in trust) are skip persons (i.e., the decedent's grandchildren and great-grandchildren). Therefore, the trust itself is a skip person and you should show the transfer on Schedule R.

Example 4.—The will establishes a trust which is to pay all of its income to the decedent's grandchildren for 10 years. At the end of 10 years, the corpus is to be distributed to the decedent's children. All of the interests in this trust are held by skip persons. Therefore, the trust is a skip person and you should show this transfer on Schedule R. You should show the estate tax value of all the property transferred to the trust even though the trust has some ultimate beneficiaries who are nonskip persons.

Dividing Direct Skips Between Schedules R and R-1

All generation-skipping transfers are to be reported on Schedule R unless the rules below specifically provide that they are to be reported on Schedule R-1.

Under section 2603(a)(2), the GST tax on direct skips from a trust (as defined for GST tax purposes, above) is to be paid by the trustee and not by the estate. Schedule R-1 serves as a notification from the executor to the trustee that a GST tax is due.

For a direct skip to be reportable on Schedule R-1, the trust must be includible in the decedent's gross estate.

If the decedent was the surviving spouse life beneficiary of a marital deduction power

of appointment (or QTIP) trust created by the decedent's spouse, then transfers caused by reason of the decedent's death from that trust to skip persons are direct skips required to be reported on Schedule R-1.

If a direct skip is made "from a trust" under these rules, it is reportable on Schedule R-1 even if it is also made "to a trust" rather than to an individual.

Similarly, if property in a trust (as defined for GST tax purposes above) is included in the decedent's gross estate under section 2035, 2036, 2037, 2038, 2039, 2041, or 2042 and such property is, by reason of the decedent's death, transferred to skip persons, the transfers are direct skips required to be reported on Schedule R-1.

Special Rule For Trusts Other Than Explicit Trusts.—An *explicit trust* is a trust as defined in Regulations section 301.7701-4(a) as "an arrangement created by a will or by an inter vivos declaration whereby trustees take title to property for the purpose of protecting or conserving it for the beneficiaries under the ordinary rules applied in chancery or probate courts." Direct skips from explicit trusts are required to be reported on Schedule R-1 regardless of their size unless the executor is also a trustee (see below).

Direct skips from trusts which are trusts for GST tax purposes but are not explicit trusts are to be shown on Schedule R-1 only if the total of all tentative maximum direct skips from the entity is more than $100,000. If this total is $100,000 or less, the skips should be shown on Schedule R. For purposes of the $100,000 limit, "tentative maximum direct skips" is the amount you would enter on line 5 of Schedule R-1 if you were to file that schedule.

A liquidating trust (such as a bankruptcy trust) under Regulations section 301.7701-4(d) is not treated as an explicit trust for the purposes of this special rule.

If the proceeds of a life insurance policy are includible in the gross estate and are payable to a beneficiary who is a skip person, the transfer is a direct skip from a trust that is not an explicit trust. It should be reported on Schedule R-1 if the total of all the tentative maximum direct skips from the company is more than $100,000. Otherwise, it should be reported on Schedule R.

Similarly, if an annuity is includible on Schedule I and its survivor benefits are payable to a beneficiary who is a skip person, then the estate tax value of the annuity should be reported as a direct skip on Schedule R-1 if the total tentative maximum direct skips from the entity paying the annuity is more than $100,000.

Executor as Trustee.—If any of the executors of the decedent's estate are trustees of the trust, then all direct skips with respect to that trust must be shown on Schedule R even if they would otherwise have been required to be shown on Schedule R-1. This rule applies even if the trust has other trustees who are not executors of the decedent's estate.

How To Complete Schedules R and R-1

Valuation.—Enter on Schedules R and R-1 the estate tax value of the property interests subject to the direct skips. If you elected alternate valuation (section 2032) and/or special use valuation (section 2032A), you must use the alternate and/or special values on Schedules R and R-1.

How To Complete Schedule R

Part 1—GST Exemption Reconciliation

Part 1, line 6 of both Parts 2 and 3, and line 4 of Schedule R-1 are used to allocate the decedent's $1 million GST exemption. This allocation is made by filing Form 706. Once made, the allocation is irrevocable. You are not required to allocate all of the decedent's GST exemption. However, the portion of the exemption that you do not allocate will be allocated by IRS under the deemed allocation at death rules of section 2632(c).

Special QTIP election.—In the case of property with respect to which a QTIP deduction is allowed to the decedent's estate under section 2056(b)(7), section 2652(a)(3) allows you to treat such property for purposes of the GST tax as if the election to be treated as qualified terminable interest property had not been made.

The 2652(a)(3) election must include the value of all property in the trust for which a QTIP election was allowed under section 2056(b)(7).

If a section 2652(a)(3) election is made, then the decedent will for GST tax purposes be treated as the transferor of all the property in the trust with respect to which a QTIP deduction was allowed to the decedent's estate under section 2056(b)(7). In this case, the executor of the decedent's estate may allocate part or all of the decedent's GST exemption to the property.

Line 2.—These allocations will have been made either on Forms 709 filed by the decedent or on Notices of Allocation made by the decedent for inter vivos transfers that were not direct skips but to which the decedent allocated the GST exemption. These allocations by the decedent are irrevocable.

Line 3.—Make an entry on this line if you are filing Form(s) 709 for the decedent and wish to allocate any exemption.

Lines 4, 5, and 6.—These lines represent your allocation of the GST exemption to direct skips made by reason of the decedent's death. You should complete Parts 2 and 3 and Schedule(s) R-1 before completing these lines.

Line 9.—Line 9 is used to allocate the remaining unused GST exemption (on line 8) and to help you compute the trust's inclusion ratio. Line 9 is a Notice of Allocation for allocating the GST exemption to trusts as to which the decedent is the transferor and from which a generation-skipping transfer could occur after the decedent's death. If line 9 is not completed, the deemed allocation at death rules will apply to allocate the decedent's remaining unused GST exemption first, to property which is the subject of a direct skip occurring at the decedent's death, and then to trusts as to which the decedent is the transferor. If you wish to avoid the application of the deemed allocation rules, you should enter on line 9 every trust (except certain trusts entered on Schedule R-1, as described below) to which you wish to allocate any part of the decedent's GST exemption. Unless you enter a trust on line 9, the unused GST exemption will be allocated to it under the deemed allocation rules.

If a trust is entered on Schedule R-1, the amount you entered on line 4 of Schedule R-1 serves as a Notice of Allocation and you need not enter the trust on line 9 unless you wish to allocate more than the Schedule R-1, line 4 amount to the trust. However, you must enter the trust on line 9 if you wish to allocate any of the unused GST exemption amount to it. Such an additional allocation would not ordinarily be appropriate in the case of a trust entered on Schedule R-1 when the trust property passes outright (rather than to another trust) at the decedent's death. However, where section 2032A property is involved it may be appropriate to allocate additional exemption amounts to the property. See the instructions for line 10.

Note: *To avoid application of the deemed allocation rules, Form 706 and Schedule R should be filed to allocate the exemption to trusts which may later have taxable terminations or distributions under section 2612 even if the form is not required to be filed to report estate or GST tax.*

Line 9, Column C.—Enter the GST exemption included on lines 2–6, above, that was allocated to the trust.

Line 9, Column D.—The line 8 amount is to be allocated on column D of line 9. This amount may be allocated to transfers into trusts that are not otherwise reported on Form 706. For example, the line 8 amount may be allocated to an inter vivos trust established by the decedent during lifetime and not included in the gross estate. This allocation is made by identifying the trust on line 9 and making an allocation to it using column D. If the trust is not included in the gross estate, value the trust as of the date of death. You should inform the trustee of each trust listed on line 9 of the total GST exemption you allocated to the trust. The trustee will need this information to compute the GST tax on future distributions and terminations.

Line 9, Column E.—Trust's Inclusion Ratio.—The trustee must know the trust's inclusion ratio to figure the trust's GST tax for future distributions and terminations. You are not required to inform the trustee of the inclusion ratio and may not have enough information to compute it. Therefore, you are not required to make an entry in column E. However, column E and the worksheet below are provided to assist you in computing the inclusion ratio for the trustee if you wish to do so.

You should inform the trustee of the amount of the GST exemption you allocated to the trust. Line 9, columns C and D may be used to compute this amount for each trust.

This worksheet will compute an accurate inclusion ratio only if the decedent was the only settlor of the trust. You should use a separate worksheet for each trust (or separate share of a trust that is treated as a separate trust).

1 Total estate and gift tax value of all of the property interests that passed to the trust	
2 Estate taxes, state death taxes, and other charges actually recovered from the trust	
3 GST taxes imposed on direct skips to skip persons other than this trust and borne by the property transferred to this trust	
4 GST taxes actually recovered from this trust (from Schedule R, Part 2, line 8 or Schedule R-1, line 6)	
5 Add lines 2–4	
6 Subtract line 5 from line 1	
7 Add columns C and D of line 9	
8 Divide line 7 by line 6	
9 Trust's inclusion ratio. Subtract line 8 from 1.000	

Line 10.—Special Use Allocation.—For skip persons who receive an interest in section 2032A special use property, you may allocate more GST exemption than the direct skip amount to reduce the additional GST tax that would be due upon subsequent disposition of the interest or cessation of qualified use. See Schedule A-1 of this Form 706 for more details about this additional GST tax.

Enter on line 10 the total additional GST exemption you are allocating to all skip persons who received any interest in section 2032A property. Attach a special use allocation schedule listing each such skip person and the amount of the GST exemption allocated to that person.

If you do not allocate the GST exemption, it will be automatically allocated under the deemed allocation at death rules. To the extent any amount is not so allocated it will be automatically allocated (under regulations to be published) to the earliest disposition or cessation that is subject to the GST tax. Under certain circumstances, post-death events may cause the decedent to be treated as a transferor for purposes of Chapter 13.

Line 10 may be used to set aside an exemption amount for such an event. You must attach a schedule listing each such event and the amount of exemption allocated to that event.

Parts 2 and 3

Part 2 is used to compute the GST tax on transfers in which the property interests transferred are to bear the GST tax on the transfers. Part 3 is to be used to report the GST tax on transfers in which the property interests transferred do not bear the GST tax on the transfers.

Section 2603(b) requires that unless the governing instrument provides otherwise, the GST tax is to be charged to the property constituting the transfer. Therefore, you will usually enter all of the direct skips on Part 2.

You may enter a transfer on Part 3 only if the will or trust instrument directs, by specific reference, that the GST tax is not to be paid from the transferred property interests.

Part 2.—

Line 3.—Enter zero on this line unless the will or trust instrument specifies that the GST taxes will be paid by property other than that constituting the transfer (as described above). Enter on line 3 the total of the GST taxes shown on Part 3 and Schedule(s) R-1 that are payable out of the property interests shown on Part 2, line 1.

Line 6.—Do not enter more than the amount on line 5. Additional allocations may be made using Part 1.

Part 3.—

Line 3.—See the instructions to Part 2, line 3, above. Enter only the total of the GST taxes shown on Schedule(s) R-1 that are payable out of the property interests shown on Part 3, line 1.

Line 6.—See the instructions to Part 2, line 6, above.

How To Complete Schedule R-1

Filing Due Date.—Enter the due date of Schedule R, Form 706. You must send the copies of Schedule R-1 to the fiduciary by this date.

Line 4.—Do not enter more than the amount on line 3. If you wish to allocate an additional GST exemption, you must use Schedule R, Part 1. Making an entry in line 4 constitutes a Notice of Allocation of the decedent's GST exemption to the trust.

Line 6.—If the property interests entered on line 1 will not bear the GST tax, multiply line 6 by 55% (.55).

Signature.—The executor(s) must sign Schedule R-1 in the same manner as Form 706. See Signature and Verification, on page 2.

Filing Schedule R-1.—Attach one copy of each Schedule R-1 that you prepare to Form 706. Send two copies of each Schedule R-1 to the fiduciary.

Instructions for Schedule S.—Increased Estate Tax on Excess Retirement Accumulations

The executor uses Schedule S to figure the increased estate tax imposed by section 4980A(d) on excess accumulations in qualified employer plans (plans) and individual retirement plans (IRAs). Schedule S may be filed only as an attachment to Form 706.

Which Estates Must File

All estates must file Schedule S if the estate has any excess accumulation (as calculated on line 16 of the Tax Computation of Schedule S). Schedule S must be filed regardless of the size of the gross estate and regardless of whether the estate is otherwise required to file Form 706.

The section 4980A(d) tax also applies to the estates of nonresident alien decedents whether or not they are otherwise required to file Form 706NA. In these instructions, references to Form 706 should be construed as references to Form 706NA if the decedent was a nonresident alien.

When To File

Schedule S is considered an integral part of Form 706 and you must file it with the estate's Form 706. Therefore, the due date is determined by the due date, with extensions, of the estate's Form 706.

Where To File

Schedule S must be attached to and filed at the same location as the Form 706.

Paying the Tax

The increased estate tax shown on Schedule S is due at the same time as the estate tax (if any) shown on the Form 706.

You may not make a section 6166 or 6163 election to defer the payment of the increased estate tax.

Part I.—Tax Computation

Line 1.—*Spousal Election.*—Section 4980A(d)(5) provides that if a surviving spouse is the beneficiary of all of the decedent's retirement accumulations, (subject to a de minimis exception), then the spouse may elect not to have the excess accumulation rules apply to the decedent but to have section 4980A apply to such interests and any distributions attributable to such interests as if they were the spouse's.

To make the election, the spouse must attach a statement to the decedent's Form 706. The statement must be signed by the spouse and must indicate clearly that the spouse is making the election provided for in section 4980A(d)(5).

If the spouse makes the election, check the box on line 1 and complete lines 2–12 of Part I, Schedule S.

Line 2.— List each plan and IRA in which the decedent had any interest at the time of death. If you need more space, list the additional plans and IRAs on an attached sheet. Also list any plans in which the decedent was an alternate payee if payments to the decedent would have been includible in the decedent's gross income under a qualified domestic relations order within the meaning of section 414(p).

If an IRA does not have an EIN, enter "None" in the EIN column.

Rollover IRAs.—If the decedent was a surviving spouse who rolled over a distribution from a plan or IRA of the predeceased spouse into an IRA established in the surviving spouse's own name, do not list the IRA on line 2 unless contributions or transfers other than the rollover amount were made to the IRA. If such other contributions or transfers were made, then you must list the IRA on line 2 and include the entire value of the decedent's interest in the IRA on line 3.

If the decedent was a surviving spouse who elected to treat an inherited IRA (described in section 408(d)(3)(C)(ii)) as his or her own IRA and made no further contributions to it, do not list the IRA on line 2.

If the decedent (whether or not a surviving spouse) elected to treat an IRA as subject to the distribution requirements of section 408(a)(6) (before its amendment by section 521(b) of the Tax Reform Act of 1984), under Regulations section 1.408-2(b)(7)(ii), do not list the IRA on line 2 if it meets those distribution requirements.

Lines 3–10.—Consolidate all of the decedent's IRAs in column D. If there are more than three plans, compute their value on an attached sheet following the same format as lines 3–10.

Line 3.—*Value of decedent's interest.*—Value the decedent's interest in the plan or IRA using the estate tax valuation rules, including the alternate valuation election under section 2032. See page 2 for details on making this election. Do not reduce this value by any of the credits, deductions, exclusions, etc., that otherwise apply for estate tax purposes. You may not claim a section 2057 deduction. Do not apply community property rules to reduce the value of the decedent's interest.

You should include in the value all amounts payable to beneficiaries of the decedent under the plan or IRA (including amounts payable to a surviving spouse under a qualified joint and survivor annuity or qualified preretirement survivor annuity), whether or not these amounts are otherwise included in valuing the decedent's gross estate.

Exclude from the value the excess (if any) of interests payable immediately after death over the value of the same interests immediately before death.

Line 4.—*Post-death rollovers.*—Enter on this line any amounts that: (1) were distributed from the plan or account within 60 days before the decedent's death, and (2) were rolled over into an IRA after the date of death and within 60 days after the distribution. Value the rolled over amounts as of the date they were received by the IRA.

Line 6.—*Alternate payees.*—Enter on this line the amount of any portion of the decedent's interest in the plan that is payable to an alternate payee and is included in the payee's gross income under a qualified domestic relations order (within the meaning of section 414(p)).

Line 8.—*Excess life insurance amounts.*—If the plan held a life insurance policy on the decedent's life, enter here the amount excludable from the beneficiary's income under section 101(a). This is the amount by which the death benefit payable under the policy exceeds the cash surrender value of the policy immediately before the decedent's death. Do not enter on this line amounts that are excludable from gross income under section 101(b) (employee death benefits).

Line 9.—*Decedent's interest as a beneficiary.*—Enter on this line the amount of the decedent's interest in a plan or IRA by reason of the death of another individual.

Do not enter on this line any plans or IRAs that are reported on line 2 of Part I as a result of the decedent having made a spousal election under section 4980A(d)(5).

Line 17.—*Increased estate tax.*—The tax shown on line 17 may not be reduced or offset by any of the estate tax credits. Enter the line 17 amount on line 23 of the Tax Computation on page 1 of Form 706. (If you are filing Schedule S with Form 706NA, enter the line 17 amount on line 16 of the Tax Computation of Form 706NA.)

Part II.—Grandfather Election

Line 1.—If you checked "Yes," attach the **Form 5329,** Return for Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts, on which the election was made.

Line 2.—*Initial grandfather amount.*—If you checked "Yes," on line 1, enter the initial grandfather amount shown on the Form 5329 on which the grandfather election was made.

Line 3.—*Previously recovered amounts.*—Enter the total of the amounts treated as recoveries of the grandfather amount.

Part III.—Computation of Hypothetical Life Annuity

Line 1.—*Decedent's attained age.*—Enter the decedent's attained age in whole years on the date of death. For example, if the decedent was 60 years and 11 months old on the date of death, enter "60" on line 1.

Line 2.—*Annual annuity amount.*—If you did not check "Yes" to line 1 of Part II, enter the greater of $150,000 or $112,500 indexed for inflation as described in Temp. Regs. section 54.4981A-1T(a-9).

If you checked "Yes" to line 1 of Part II, enter $112,500 indexed for inflation as described in Temp. Regs. section 54.4981A-1T(a-9).

Line 3.—*Present value multipliers.*—Section 5031 of the Technical and Miscellaneous Revenue Act of 1988 requires IRS to issue new present value tables using revised mortality figures. Also, to determine the present value multiplier under the new procedure, you must use an interest rate which is revised monthly. IRS will announce the applicable rate in a news release and will publish it in a revenue ruling in the Internal Revenue Bulletin.

IRS has published new present value tables for some interest rates in Notice 89-60, 1989-22 I.R.B. 16. The complete tables have been printed in **Pub. 1457,** Actuarial Values-Alpha Volume, which can be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402.

To calculate the present value of an annuity if the tables are not available, and for additional information on the new rules, see Notice 89-60 as noted above, and Notice 89-24, 1989-10 I.R.B. 16.

Worksheet for Schedule Q—Credit for Tax on Prior Transfers

Part I Transferor's tax on prior transfers

Item	Transferor (From Schedule Q) A	B	C	Total for all transfers (line 8 only)
1. Gross value of prior transfer to this transferee				
2. Death taxes payable from prior transfer				
3. Encumbrances allocable to prior transfer				
4. Obligations allocable to prior transfer				
5. Marital deduction applicable to line 1 above, as shown on transferor's Form 706				
6. **Total** *(Add lines 2, 3, 4, and 5)*				
7. **Net value of transfers** *(Subtract line 6 from line 1)*				
8. **Net value of transfers (Add columns A, B, and C of line 7)**				
9. Transferor's taxable estate				
10. Federal estate tax paid				
11. State death taxes paid				
12. Foreign death taxes paid				
13. Other death taxes paid				
14. **Total taxes paid** *(Add lines 10, 11, 12, and 13)*				
15. **Value of transferor's estate** *(Subtract line 14 from line 9)*				
16. Net Federal estate tax paid on transferor's estate				
17. Credit for gift tax paid on transferor's estate				
18. Credit allowed transferor's estate for tax on prior transfers from prior transferor(s) who died within 10 years before death of decedent				
19. **Tax on transferor's estate** *(Add lines 16, 17, and 18)*				
20. Transferor's tax on prior transfers ((Line 7 ÷ line 15) × line 19 of respective estates)				

Part II Transferee's tax on prior transfers

Item			Amount
21. Transferee's actual tax before allowance of credit for prior transfers *(see instructions)*			
22. Total gross estate of transferee *(from line 1 of the Tax Computation, page 1, Form 706)*			
23. Net value of all transfers *(from line 8 of this worksheet)*			
24. Transferee's reduced gross estate *(subtract line 23 from line 22)*			
25. Total debts and deductions (not including marital and charitable deductions) *(items 15, 16, and 17 of the Recapitulation, page 3, Form 706)*			
26. Marital deduction *(from item 18, Recapitulation, page 3, Form 706) (see instructions)*			
27. Charitable bequests *(from item 19, Recapitulation, page 3, Form 706)*			
28. Charitable deduction proportion ([line 23 ÷ (line 22–line 25)] × line 27)			
29. Reduced charitable deduction *(subtract line 28 from line 27)*			
30. Transferee's deduction as adjusted *(add lines 25, 26, and 29)*			
31. (a) Transferee's reduced taxable estate *(subtract line 30 from line 24)*			
(b) Adjusted taxable gifts			
(c) Total reduced taxable estate *(add lines 31(a) and 31(b))*			
32. Tentative tax on reduced taxable estate			
33. (a) Post-1976 gift taxes paid			
(b) Unified credit			
(c) Section 2011 state death tax credit			
(d) Section 2012 gift tax credit			
(e) Section 2014 foreign death tax credit			
(f) Total credits *(add lines 33(a) through 33(e))*			
34. Net tax on reduced taxable estate *(subtract line 33(f) from line 32)*			
35. Transferee's tax on prior transfers *(subtract line 34 from line 21)*			

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